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Military Expenditures—Crucial Budget Problem

By MELCHIOR PALYI

Dr. Palyi foresees no immediate move to put into practice Truman socialistic proposals because President's economic advisers fear either business depression or budgetary deficit. Says crucial question is to keep military expenditures within bounds, since tremendous growth of Soviet power can be matched or restrained only by huge armaments on our side. Predicts military budget of $30 billions per annum.

I.

A meal is not eaten as hot as it is cooked, states a European proverb. Campaign oratory is one thing, and political reality is another. Mr. Truman's socialistic demagogy is not likely to be translated into immediate practice, or fractionally only. That, at any rate, seems to be official Washington's attitude at present.

Dr. Melchior Palyi

So far as the Administration is concerned, the name of the Taft-Hartley Act may be changed and the closed shop and foremen's unions may be restored. But otherwise there probably will be no fundamental change in labor legislation. Raising the minimum wage from 40 cents to 75 cents an hour no longer appears as urgent as it did during the campaign. New price controls and centralized regimentations may be blueprinted—to be kept on file.

Even the excess profits tax may not be in the cards as yet; the Treasury seems to think in terms of "merely" raising the corporate tax from 38% to 50% (still leaving price-earnings ratios of most stocks at extraordinarily low levels), and individual income taxes are not likely to be revised for some time. Public works, public housing, extended social security, and other subsidies will be pushed, but not all at once.

Of course, all this is before Congress meets, a Congress that might be more left of center than the Administration itself. Some Republican members, in particular, rationalize their party's defeat into the conclusion that they should have proposed soup kitchens for every one. They would try to out-new-deal the New Dealers. On the other hand, a coalition of the Taft-Republicans with Southern Democrats might keep Congress from running amuck.

Be that as it may, the apparent reticence of the Administration is

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See **PICTORIAL INSERT** for pictures taken at Annual Election Meeting and Dinner of the Security Traders Association of New York.

Business Profits Exaggerated!

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

Asserting during last three years American corporations have overstated profits by $16.4 billion, prominent Harvard economist ascribes this to counting as profits rise in inventories and plant replacement costs. Says depreciation charges have been inadequate and rigidity of accounting rules prevents adjustments due to changes in price level. Holds if accounting adjustments were made, profits would have risen only as fast as sales volume, and notes if profits are abnormally high, new investment would greatly increase and tend to become excessive. Looks for retained earnings as chief source of new industrial capital.

During the last three years American corporations have overstated their profits by approximately $16.4 billion. This is the amount by which the reported statements of profits exaggerate the amount of income available to pay dividends, to expand plant, to increase wages, or to reduce prices. In 1946, profits were represented as being nearly twice as large as they really were: in 1947, profits were overstated by about 51%; in 1948, profits will be overstated by approximately 25%. Naturally, it is highly misleading to stockholders, employees, customers, and the public to have the amount of income available for dividends, plant expansion, wage increases or price reductions so greatly overstated.

Prof. S. H. Slichter

In 1946, the actual amount of corporate income available for dividends, wage increases, plant

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*Testimony of Professor Slichter before Joint Committee on the Economic Report of the President, Washington, D. C., Dec. 6, 1948.

EDITORIAL

As We See It

The Three Messages

The President is now closely engaged in the preparation of the three messages which, under various provisions of law, he must deliver to Congress not long after the turn of the year. There used to be only one—the constitutionally required State of the Union message. Then we developed a semi-farcical executive budget procedure, and then there were two reports or messages due from the President. But modernism was not satisfied, so a third was added in which the President is expected to review the economic or business situation in a way designed to show what is necessary to keep the economy running at a high level of activity and employment. Plainly implied in the last-named is of course the notion that the Federal Government has now assumed the role and the responsibility of managing business in this country, or, at all events, directing it in the broad, as it were.

If the President or those who advise him were gifted with understanding far beyond that of ordinary men, the President's Report, as the latest addition to Presidential messages has come to be popularly known, might well be a most valuable document. Its author (or authors) appear to have no hesitancy in expatiating at length upon almost any subject, and they seem to feel that they know many of the answers. The truth of the

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A Reversion of Economic Uptrend

By HOWARD T. LEWIS*
Professor of Marketing, Harvard University
Editor, Harvard Business Review

Stating "beneath the surface, business is not fundamentally healthy," Harvard University marketing specialist foresees reverse of economic uptrend. Lists industries already feeling effects of changed conditions, but holds no serious depression will be felt in next year. Urges manufacturers and distributors maintain reasonable liquid resources and exercise conservation in planning capital expansion.

A title to comments made in public is likely to be a very misleading thing. It is, of necessity, usually chosen so far in advance of the appointed hour that the speaker makes it so broad that it will cover whatever he later decides he may want to say, or else it is so restrictive that when he comes to speak, he is constantly tempted to — and frequently does — get off the announced subject and say things that may have little to do with the assigned topic. So this afternoon I am going to ask you to forget the title of my talk as it appears on the program altogether. I should prefer just to talk for a while about some very basic questions which confront all of us as businessmen and as citizens in this very critical period in which we find ourselves.

H. T. Lewis

Of course, even today, the "man in the street" may not feel that conditions are particularly foreboding. Prices are high, but so are profits and wages. Jobs are plentiful; everybody except the white collar worker has money in his pocket; and the goods people want to buy are becoming steadily easier to secure. Life goes on very much the same as it always has in times of peace and, so long as the strains and stresses within the economic structure are not visible to the naked eye, the general public is usually not very much alarmed. True, there is a vague feeling abroad in the land that all is not quite as good as it looks. There is concern about the increasing cost of living, and one might wish that Russia would behave itself. But, after all, Congress has promised to reduce taxes, and somehow it is difficult to convince ourselves that another war is really very imminent. Even these threats of alarm are subject to heavy discount. During the last session of Congress, noisy prophets foretold the complete disorganization of business that would follow from a failure to reduce taxes. We were threatened with all sorts of disaster if the Taft-Hartley Bill were passed, and likewise if it didn't pass. Total ruin was to be expected if governmental expenditures were not drastically reduced, and also if some of them were. From week to week we were assured that our national destiny depended upon whether or not some particular measure were passed or not passed, the very names and subjects of which were soon forgot.

Anyway, we have always come out pretty well on the whole. And yet, as I said, thinking men are disturbed. Now it is probably safe to say that of all the outstanding questions in the minds of most people in this country, the most troublesome ones are not those concerned directly with the recent election. Interesting though the post-election analysis may be, I suspect that the two leading questions of the hour to most of us here this afternoon are the same two that worried us most prior to the election: "What is ahead for business?" and "Is there to be war with Russia?" I am neither a prophet nor the son of a prophet, and I do not know the answers to these questions. Even less do I know the timing involved. But there are some basic facts bearing on the answers that I think I do know. Moreover, if I am right, it is high time American businessmen and American citizens quit kidding themselves about them.

One brutal fact that we need to face is that so long as the present group or its counterpart control Russian policy, and so long as the communist doctrine is what it is, no harmonious, cooperative arrangement with that country is possible. So far as communism is concerned, it is basically and diametrically opposed to the things in which you and I believe. There is no possible practical basis for reconciliation between the two philosophies. A second blunt fact is equally true, namely that it is part and parcel of that doctrine that the rest of the world must be converted—by persuasion, if possible, by force, if not. Viewed in the light of these elementary facts, whether the Western Powers win or lose in Berlin, for example, is in itself of only incidental importance. Russia will not ease her pressure on the West regardless of what happens in Berlin. That pressure won't come off until there is unified Germany under Russian control. And in the meantime, the pressure will be increased in France, in Italy, in India, China and Thailand. As Hitler wanted Western Europe, communism under Russian guidance wants the world.

All of this is even more impressive when we try to appraise the group in control of Russian foreign policy. For one who cares to study history, there is a deadly parallel between the origin, the development, and the policies of the dominant group in Russia and that of nazism in Germany. With this group in charge of Russian communism, the outlook is not good.

These are hard facts, but they are crystal clear. Hence it is foolhardy to overlook the fact that merely because Russia is not economically prepared for a shooting war, now in December, 1948, does not mean that she cannot most effectively carry on other and equally deadly forms of warfare until she is ready—provided it is still necessary by that time. Nor does it help much to argue that the Russian **people** do not want a war, cold or otherwise. The people of no nation ever wanted war, but that fact has not resulted in universal peace.

There are two, and I am afraid only two, ways to stop Russia and she fears them both. One is to do all we can to get Western Europe on its feet. That means the Marshall Plan or some modification thereof. The other is to be prepared to use military force, and to use it whenever Russia, figuratively speaking, crosses the Rubicon. A shooting war with Russia is not inevitable, but Captain Rickenbacker was only stating a blunt fact when he said, "War with Russia may come any day. War with Russia may never come at all. And I pray that we may never have another war. The factor which determines when and if Russia will attack us depends upon the immediate strength or weakness of Uncle Sam today and tomorrow."

I did not come this afternoon to discuss international affairs. But the situation in Europe is a fact of such tremendous importance to business in this country that no good comes from the tendency on the part of forecasters to tell us what will happen to business in the United States—"provided the Russian problem is adequately met."

For see how, out of this one fact, there follows certain others. The two ways of preventing a spread of communism, with or without a shooting war, to which I have referred, is going to cost the United States, and therefore you and me, a lot of money. It is estimated that the Economic Recovery Plan will cost over 1948-1951 somewhere between $22 billion and $25 billion unless it is extended to cover China as well, in which case I would not attempt even to approximate its cost. Nor does it help much to say that this amount is comparatively small relative to our national income. Any way you look at it, $22-$25 billion is not "chicken feed," and the net inflationary effects could be serious indeed.

To the cost of the recovery program, of course, we shall have to add our military expenditures, including stockpiling. The expenditure for guns, planes, and ships cannot help but be very large. Mr. Truman would like to keep it

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*Paper presented by Prof. Lewis before the Manufacturers Surgical Trade Association and American Surgical Trade Association, New York, N. Y., Dec. 1, 1948.

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Business Prospects

By JOSEPH L. SNIDER*

Professor of Business Economics, Graduate School of Business Administration, Harvard University

Professor Snider contends, though preponderance of evidence suggests no severe decline in business and prices is just ahead, there is a possibility of severe decline later and business generally should get into condition to withstand severe depression. Warns of deflation spiral and concludes results of November election lessen chances of severe depression though resulting in loss of business confidence and more difficulty in raising equity capital. Sees "swing to the left."

Well before the recent elections, I reached the conclusion that our inflation-boom was about over. An analysis of price fluctuations indicated that prices in several important areas had been declining for some time, although the general price level had not turned down definitely.

Dr. Joseph L. Snider

Moreover, demand for goods and services appeared to be less insistent than formerly and, quite significantly, plant and equipment expenditures seemed to be flattening out. It also seemed probable that the money and credit supply would exert less inflationary pressure, particularly in the light of control measures.

If it should become clear during the next several months that the inflation peak of wholesale prices generally and of the cost of living had been reached, historical precedents suggest that prices would turn down promptly. It would also be normal for a decline in general business activity to take place along with a decline in commodity prices. Historical precedents are, of course, not governing and it may be that this time declines of prices and business may not follow promptly the culmination of our inflation-boom. If there should be an acceleration of war dangers there would almost certainly be no decline in prices and business.

Supporting Factors in Business Activity

Then too, there are numerous strong supporting factors. The demand for goods and services continues active throughout most of our economy, and there are a few important areas where demand still far outruns available supplies. Credit is plentiful at moderate rates. Aid to Europe will continue to hold up demand for numerous commodities. Moreover, government support of agricultural prices is important, and the very large government expenditures (more than 20% of the total national income if Federal, state and local government expenditures are lumped together) are not likely to shrink.

Then too, some of these supports are new; that is, they were not present when our earlier inflation episodes were drawing to an end. Of these new factors, government support of agricultural prices and the present great magnitude of total government spending are of the greatest significance.

Possibility of Severe Decline

But while we recognize the strong points in the present situation, and while we may even conclude that the preponderance of evidence suggests that no severe decline in business and prices is just ahead of us, it is prudent to acknowledge the *possibility* of a severe decline. It is salutary to recall that the prevailing attitude of businessmen and academic students of business conditions before each of our major downturns during the past generation was to emphasize the strong points in the picture and to expect no more than a minor downward correction.

It would be wise, therefore, for businessmen generally to get their businesses into condition to withstand a severe general recession, even though such a recession does not now appear imminent. Widespread attempts on the part of businessmen to get ready to weather a storm represent, in the economic world in contrast to the world of nature, perhaps the most effective way of minimizing the severity of the storm when it comes. Before the storm breaks, operations should be carried on with conservatism, although not with apprehension. After the storm breaks, readjustment to lower levels of prices and operations should be as gradual as possible.

To be sure, an individual business may promote its short-run welfare in a time of downward readjustment by making drastic reductions in its prices, inventories and employment; and, therefore, by the limited criterion of short-run profits such precipitate policies seem to be good business. But for businesses generally to take such drastic action is the surest way to generate a spiral of deflation detrimental to all including the smart operators. In a period of readjustment, as in other times, a widening of the area of a businessman's loyalties is called for, a greater willingness of individuals to make short-run sacrifices for the long-run welfare of all.

Election and Business Prospects

How were business prospects modified by the results of the elections on Nov. 2? With respect to the inflation-boom, it seems no

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*Digest of address by Dr. Snider before the Mid-Winter Conference of Pennsylvania Bankers Association, Trust Company Section, Harrisburg, Pa., Dec. 3, 1948.

Capital—The Priceless Ingredient

By JOSEPH MORRELL DODGE*
President, The Detroit Bank
Former President, American Bankers Association

Asserting we are deep in political uncertainties, which multiply normal risks of business and investment, former ABA President deplores declining rate of savings, artificially low interest rates, and lack of new equity capital. Scores government controls, restrictions on work, and elimination of workers' and producers' incentives. Sees threat to both ability and incentive to accumulate and use capital.

I am sure everyone here today has some degree of concern about the trend of our National economy and past and proposed Government policies. And, I am equally sure we are not alone in this. It would not be over-simplification to surmise that most people fall into one of two groups—those who have sufficient knowledge and understanding of the past and present trend to be deeply concerned about the ultimate result, and those who live in an atmosphere of uneasy satisfaction with circumstances which appear to benefit them, but about which they have fundamental doubts. Perhaps many of the latter have the insecure feeling of a person walking on stilts.

Joseph M. Dodge

Every segment of the economy has its areas of worry or complaint—business and industry, those on salaries and fixed incomes, the hourly wage earner, and the saver and investor. And it does not stop there. It extends to responsible individuals in the great business which we call government.

Comparative charts and statistics evidence an apparent tremendous progress, both economic and financial. Yet, underlying it, we have an atmosphere of uncertainty as to whether all this is real or synthetic, and whether it can continue.

We look back to the end of the war when large scale unemployment was prophesied but which did not materialize, and to a proclaimed goal of 60 million jobs which since has been exceeded. We are reminded of the end of 1946 and the beginning of 1947 when economic advisers pointed with alarm to an expected deflation which, within six months, became a progressive inflation.

We entered 1948 with the problems of inflation uppermost in everyone's mind. At the Special Session of the Congress held in August a program to control inflation was presented which included proposals leading to a peacetime regimentation of the economy and, with them, provisions for more inflation.

Today we have a supply adequate to meet demand, in most categories of consumer goods; an over-flowing granary of agricultural products, which are not permitted to have their natural price effect on the markets; a country confused by disturbing and conflicting legislative proposals; and deflationary and inflationary pressures and prospects. If, for good measure, we throw in the situation in Europe and the Far East, the best we can say is that the future has substantial elements of uncertainty.

We talk freely about maintaining our prosperity, full employment, and economic and social progress. We are led to believe that the approach to the problems should be more government spending and higher taxes, combined with legislation promoting restrictions on production, consumption, and prices. It is proposed to increase limitations on consumers and producers, and expand government direction and control of our economic life. Whatever form this takes, the fundamental direction is toward higher costs and prices, and lower productivity. This will tend to stifle further the ability and desire to save and invest in the instrumentalities of production and enterprise on which our economic progress and our way of life have been founded.

Conditions We Face

With this background, I will comment briefly on some of the conditions to which I have referred.

We look at our annual national production of goods and services, recently reported at the rate of about $250 billion, and may be inclined to take a great deal of pride and satisfaction in it, or in the dollar increase in the sales and income of the business components of this unprecedented amount.

We are likely to forget that this is merely a dollar symbol representation of costs and prices. When converted into annual national net income it is still prices because what is price to one man is income to another. Actually we are talking about $125 billion of national product in fifty cent dollars. With a theoretical maximum use of our production facilities and manpower, the ultimate figure shown in this computation is substantially dependent on the degree of inflation appearing in the dollar symbols.

If wages, costs, and prices are pushed high enough, we can have a $300 to $400 billion national product, the same way we acquired $250 billion. This is part of the myth that high prices and plenty of money spell prosperity and that, if government will only spend enough dollars, everything will be all right, at least with the statistics.

While these are sensational figures, conversely they reflect a constantly rising spiral of the operating costs included in prices and of break-even points which are pushed along ahead of them. The question is whether sales volume and prices can continue to increase sufficiently to stay ahead. This is a briefly expressed reason for current management headaches and investor fears, recently magnified by the prospect for additional taxes.

The squeeze play which goes on between costs and prices and taxes and income it steadily increasing dollar symbols, and the resulting disturbances, are a material factor in the general uncertainty if, after all, these fine figures represent real progress and a permanent prosperity.

One of the conditions which puts a theoretical ceiling on our production, within the limits of our available plant capacity and its possible expansion, is our so-called full employment. Actually we have over-employment, brought about by work restrictions and the elimination of worker production incentives. Many workers, employed as a result of make-work processes, should be available for the expansion of production in other or newer enterprises. Consequently, we have become relatively inflexible, and tend to be more and more frozen into our present production patterns. Our continued econonomic progress requires mobility of both labor and capital.

Today maximizing our production according to any reasonable standard of possibilities is restrained by a shortage of workers, which is partly fictitious. Productivity has not increased with the payrolls. Unit production costs have risen with the continuous decline in unit production per man hour. This has been multiplied by wage increases. The wage-price spiral has become openly apparent to everyone. In turn, inevitably this has been reflected in higher consumer prices and the payroll dollars received by workers have continued to buy less and less.

The fact is that the wage earner has permitted himself to be deprived of his personal incentives, and to be limited to the production standards of the lowest common denominator of worker. So far, the effect of this largely has been offset by technological advances. But everyone has reason to wonder whether mechanical improvements alone can continue to absorb the dead weight of a declining productivity.

As a single objective there is nothing easier to achieve than full employment. Dictators obtain it by coercion and slave labor. They are never short of work for others. It is obtained in war. Also it is obtained by work restrictions, or by any other device which throws overboard the relationship between increased output and productivity. This is the real issue, and not how many people are working. But every public proposal encourages conditions which lead to less man-hour output at higher costs, despite the fact that lowered productivity can end only in higher prices and a falling standard of living.

Unfortunately it is true that the greater the wealth of a nation, the less its relative productivity. No matter how good the figures appear to be, they do not stand up against the yardstick of possibilities. Regardless of theoretical ceilings in production and manpower, we are achieving neither

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*An address by Mr. Dodge at the 53rd Annual Congress of American Industry, New York City, Dec. 2, 1948.

The Drags on Inflation

By A. D. H. KAPLAN*
Brookings Institution, Washington, D. C.

Economic analyst discusses forces which are at work interfering with continuance of leapfrog game of wages, costs and prices. Stresses point additional doses of wages and profits that have swelled total income are not creating balanced buying power and consumers whose incomes do not keep pace with higher costs are being priced out of market.

In the spiraling of wages, costs, and prices, we have been watching our economy behave as though it had lit upon the secret of perpetual motion, yet fearing that somehow there must be a catch in it. For two and a half years, we have seen the formula at work; rising prices are met by higher money incomes, which accelerate demand and costs, which accelerate prices, which remotivate wages into the renewal of the inflationary spiral on another round. The process has apparently been going hand in hand with peak employment, with new records progressively scored in our gross national product, sales volume, aggregate profits, disposable income and, too, in commercial loans and bank deposits.

What forces are at work to interfere with the continuance of this game of leapfrog with wages, costs and prices? Is a collapse imminent; and is positive public intervention indicated, to avert catastrophe?

Disturbing Features

Some disturbing features in the current situation, along with remedial suggestions, have already emerged in the earlier sessions of this conference. I have selected a few for direct consideration. But first, a word of notice that you are not being invited to the mourner's bench. I assume our awareness that an economic society like ours, a democratic society, operates on the basis of compromise; the variant views, pressures and desires of many groups have to be reconciled through voluntary action. We have no great "I Know" in the position where he can dictate his own motivations and his own scale of values. And so, even during the war, no agency compelled us to withhold a stated percentage of our income in savings not to be redeemable for so many years thereafter. No one was empowered to impose comprehensive disciplines upon us for as many postwar years as deemed necessary, to enforce a catching up productionwise with the tremendous supply of new money that has been created in one form or another—in bonds representing the quarter trillion dollars of public debt; in savings of individuals; in currency and demand deposits—amounting to roughly three times the total of our monetary supply immediately before the war. Considering our necessary compromises with any such decisive overall policy, it seems clear that while we might have done better, we might easily have come out much worse. At this juncture, the question of where we go from here may still be asked with reasonable hopefulness of a favorable outcome.

Counteracting Forces

It can already be seen that the inflationary spiral has developed some drags, and that some counteracting forces are in motion.

The additional doses of wages and profits that have swelled the total of income payments are not adding up to a balanced maintenance of real buying power. There are many discrepancies in the sharing of the rise in national income, which affect our ability to keep up the present rates of production and sales at present price levels. Take, for example, the discrepancies in the assets available to those who are going to do the buying.

If you were talking about farmers, you could say that the liquid assets now in the hands of the farmers of this country, even after allowing for the difference in the value of the dollar, represent about two and a half times the buying power of the liquid assets that the farmers of this country had before the war. And so far as their current income is concerned, again making allowances for the changed price levels, we could still say that their current income has about 1.9 times the buying power that the aggregate farm income had immediately before the war. That is one side of the picture.

Go, however, to the recent surveys made by the Michigan Survey Bureau for the Federal Reserve Board, and you get this sort of a picture: During the past year some three million families, or spending units, have exhausted their war savings bonds. One family in four had no liquid assets whatever to report. The concentration of dissavings—that is, expenditures beyond income—in the survey two years ago, concentrated in the $3,000 to $5,000 group. But in the last survey, it was found that dissavings were running sharply into the income groups up to $7,500.

Almost exactly 50% reported no increase in money incomes during the past year while prices were rising. Thirty per cent of the families said that their dollar incomes were the same or about the same as the year before. Twenty per cent of the families had had an actual decline in money incomes.

Now, it would be desirable, of course, to know in what income brackets those people were. Maybe some of them were 'way down the scale, living on pensions, insurance, or other fixed incomes of that sort. Maybe some of them were in the low-paid unskilled class.

But whatever else, they were consumers of some things that everybody must buy. There is a limit to how many units of clothes we can put on a back, or how much food we can put into a stomach, and it takes numbers to make the market for some of our commodities. The fact that we get the slipping in money incomes of a sizable fraction of families means that we are going to see some softening in specific market areas; and some of that has appeared, as I shall indicate in a little while.

Payroll Costs

We come to the issue of wages and payroll costs. With three successive rounds of wage increases behind us, a fourth one is coming up, or at least has been promised by Mr. Green and other labor leaders. What have the wage battles won for the labor population?

The BLS index of production-worker payrolls rose approximately 32% during the two years ending in June, 1948. One of the things we sometimes fail to take into account is that during that period some two million additional members of the population came into the workers' forces. They are included in that 32% rise in payrolls. But even among those who were in the labor force, there are great discrepan-

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*Part of an address by Dr. Kaplan before the Society for the Advancement of Management, New York City, Oct. 29, 1948.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Industrial production for the country at large was sustained at a very high level the past week and remained moderately above the level of the similar week of 1947.

There was a slight decrease in the number of layoffs and strikes in most sections of the country but employment and payrolls continued near the high levels of previous weeks.

It would appear according to reports coming to hand that with the beginning of new contract negotiations next spring the United Mine Workers will list among their demands a shorter work-day and work-week.

At the United Mine Workers' convention this fall the union went on record as being in favor of a reduction in working hours and President William Blizzard of U. M. W. District 17, of West Virginia, was reported to have said on last Thursday that the mine workers "hoped to be able" to reduce their hours of work from the present eight-hour day, 40-hour week level at their next contract meeting with the coal operators. Elaborating on his statement, Mr. Blizzard said, "I hope we'll be able to make it a six or seven-hour portal-to-portal day," which all adds up to the fact, should the miners obtain their demands, that Mr. and Mrs. Consumer will once again foot the bill.

* * *

With the start of Christmas shopping in many sections, total retail dollar volume in the week slightly surpassed that of the previous week. Total consumer purchases were fractionally below the level of the similar week last year. Toys and gift items were sold in an increased volume.

Wholesale buying remained very high despite a slight increase in the number of cancelled orders. Some merchants attempted to reduce inventories through promotional activities. Collections were slightly slower than in the similar week last year.

* * *

Steel capacity has increased 17.5% in the 10 years since 1938, according to a new "Directory of Iron and Steel Works of the United States and Canada," issued recently by American Iron and Steel Institute. Meanwhile, the population of continental United States has increased approximately 12.5%.

The addition of more than 14,000,000 tons of raw steel capacity has been accompanied by an increase of about 19% in blast furnace capacity, a gain of 14% in capacity for the making of finished hot rolled steel products and a rise of 35% in hot rolled sheet and strip capacity, according to comparisons based upon the 1938 and 1948 Directories.

The record capacities of the industry are scheduled to rise further under the expansion and improvement programs undertaken by iron and steel companies since the end of the war which involve expenditures totaling nearly $1.7 billion. Many of the improvements have been completed and others are nearing completion.

Some of the highlights of the changes during the past 10 years include: Total capacity for the making of electric furnace steel which has increased nearly four times during the decade, from 1,490,000 tons in 1938 to 5,397,000 tons in 1948.

Capacity for the production of cold rolled sheet and strip steel has increased 55% while capacity for the production of cold finished bars has increased 87%.

* * *

Net railway operating income of the class I railroads for October, 1948, before interest and rentals, was $110,876,857, compared with $76,879,447 for October, 1947, according to the Association of American Railroads.

Estimated net income of the carriers, after interest and rentals, for the latest period was $85,000,000, as against $50,000,000 in the same month of 1947.

Net railway operating income for the first 10 months of the current year, before interest and rentals, totaled $853,624,669, compared with $636,732,695 in the corresponding period of 1947, while net, after interest and rentals, in the first 10 months of 1948 is estimated at $590,000,000, compared with $370,000,000 in the like period of 1947.

In the 12 months ended Oct. 31, 1948, the rate of return on property investment averaged 4.37%, compared with a rate of return of 3.57% for the 12 months ended Oct. 31, 1947. Property investment is the value of road and equipment as shown by the books of the railways, including materials, supplies and cash, less accrued depreciation.

Total operating revenues in the first 10 months of 1948 amounted to $8,039,696,497, compared with $7,126,451,208 in the same period of 1947, or an increase of 12.8%, while operating expenses amounted to $6,185,340,851, compared with $5,572,138,491 in the corresponding period of 1947, or an increase of 11%.

Twenty-one class I railroads failed to earn interest and rentals in the first 10 months of 1948, of which eight were in the Eastern District, three in the Southern Region and 10 in the Western District.

* * *

October incorporations of new businesses in 48 states declined slightly to 6,774, from 6,930 in September, Dun & Bradstreet, Inc., reports. The October figure represented a drop of 29.5% from the 9,609 charters granted in October a year ago. The downward trend shown from September to October contrasted with a rising movement in each of the three preceding years during the same period.

With only six of the 48 states showing gains over a year ago, stock company organizations during the first 10 months of 1948 numbered 82,355. This was a decrease of 12,284, or 13.0%, from 94,639 for the corresponding 1947 period. It was a decline of 32,082,

(Continued on page 29)

Observations . . . .

By A. WILFRED MAY

LANGUAGE AND POLITICAL STRATEGY

The confusion in our domestic political thinking, accentuated since the recent election campaign, goes on unabated.

A chief mainspring of our misconception of even the issues at stake stems from the field of semantics, from language and meaning difficulties. For example, in the case of the words *liberalism, national socialism, "democratic" socialism, "mild" socialism,* and *communism;* which have long been indiscriminately bandied about; their careless misuse by the public is leading to vital social disservice. We are witnessing great segments of the community, including "enlightened" labor leaders (as at the CIO meetings in Oregon last week), sincerely professing their opposition to communism, particularly of the foreign-instigated variety. But we also see them, or rather *should* see them, simultaneously fighting for the government controls and central planning which must inevitably lead to domestic communism.

A. Wilfred May

Probably Mr. Philip Murray to some extent does not even realize the collectivist ends to which his "liberal" aims would lead us, and to the extent to which he does realize it, is convinced that our journey to collectivism under a labor-conscious government will be so gradual as to forestall present alarm. Within recent years we have witnessed countless of our most voluble socialists, from a variety of externally induced motivations, swing over to the maximum denunciation of the "Russian" brand of state socialism which for so long has elicited their intense interest and sympathy. Likewise, during and since the recent campaign in which Mr. Truman captured victory through the "pocketbook" vote, we have seen every representative of every political party proclaiming with great and sincere conviction, devotion to "free enterprise"—or at least to the "American way of life." In the post-election period such blandly expressed and wishfully-believed faith has received increasing credence in dogged disregard of the oft-repeated convictions and persistently-urged specific legislative proposals of Mr. Truman and the newly-validated men-in-the-legislative-saddle, and oblivious of the decisively-given evidence that such programming of subsidization and state socialism is the chief if not only prerequisite to election.

Those who deny such implications evidently are basing their optimism either on a kind of wishful psychoanalysis concluding that the President (a kindly former Missouri haberdasher) really has no suppressed or unsuppressed desires for personal despotism or state socialism, or, as in England, that any socialism we have will be mild or at least "democratic."

Of course, "state" socialism will remain an evil to be shunned, for that is realized as being akin to the real thing of the *police state.* But what does it matter whether our ushering into the complete subversion of the economy by political subsidization and regimentation transpires under the nomenclature of the so-called "democratic" or under the "state" brand of socialism. In the words of the distinguished European observer, Wilhelm Ropke, what difference to the individual whether he be the victim of manslaughter or of first-degree murder?

Strangely, our relatively promising business outlook is cited by the complacent as reassurance that the country is not to be treated to the socialism for which it voted. But while depression will of course stimulate to the nth degree the fruits of full employment philosophy, of pump-priming and the rest of planning and state direction, it must be remembered that the recent social revolutions in England, Sweden and Norway have been ushered in midst periods of boom rather than bust.

The Top-Level "Strategy" of Befuddlement

Another cause of the public's confusion arises from the Administration's efforts to "placate" the business interests, presumably to forestall depression induced by their action. When the private enterprisers are being reassured at the White House front door, are they to assume that the President (perhaps under the goading of those day-saving Southern Democrats) is really going to retreat from his specifically pledged program? And even if Mr. Truman be constitutionally "conservative," can his decisively-given reward from the voters possibly permit him to continue so? Practically midst reiterations that the new Administration would carry out its campaign-announced program, the President at his last Thursday's press conference, as reported in the New York "Times" under the caption, "President Assures Business Any Fear of Him Is Baseless," "expressed the opinion today that business had nothing to fear from his new, four-year administration and offered as evidence his record of the past three and a half years." **(P.S.—Five paragraphs further on the same newspaper reported the President's presumably next breath as containing this kind of assurance (??): "The President declined**

(Continued on page 43)

Sumergrade Co-Mgr. Of Du Pont Office

CLEVELAND, OHIO — Irving Sumergrade, for the past six years

Irving Sumergrade

with the Cleveland office of Goodbody & Co., is now co-manager of the office of Francis I. du Pont & Co., 1010 Euclid Avenue.

Maxwell, Marshall Co. To Merge Dec. 31 With Walston, Hoffman Firm

LOS ANGELES, CALIF.—Maxwell, Marshall & Co., members of the Los Angeles Stock Exchange, will be absorbed by Walston, Hoffman & Goodwin, members of the New York and San Francisco Stock Exchanges, as of Dec. 31. Frank O. Maxwell will become a partner in the latter firm, which will take over the entire personnel of Maxwell, Marshall. It is understood that Wallace A. Marshall will resign from the organization and will announce his plans at a later date.

The Los Angeles and New York offices of Maxwell, Marshall & Co. will be combined with the offices of Walston, Hoffman & Goodwin already located in those cities. The branches which Maxwell, Marshall has maintained in Pasadena, Beverly Hills and San Diego will be continued under the name of Walston, Hoffman & Goodwin, giving the latter a total of 17 offices in California.

J. Stewart Baker Again Hits Government Bond Pegging

Chairman of Board of Bank of Manhattan Company tells stockholders at 150th annual meeting Federal Reserve cannot expect to peg prices of U. S. securities and at same time meet responsibilities in effective control over nation's credit base. Reports bank earnings up despite higher expenses.

In his report as Chairman of the Board at the 150th Annual Meeting of the stockholders of the Bank of the Manhattan Company, J. Stewart Baker, after reviewing the past year's operations of the Bank, again took occasion to criticize the Federal Reserve policy of pegging the prices of United States securities at specific levels, and recommended instead some measure of tax exemption on income from government bonds to create a broader and better market for them.

J. Stewart Baker

"Last year in my report to our stockholders," Mr. Stewart stated, "I recommended that the Federal Reserve authorities give serious consideration to the abandonment of all commitments to hold the yields on United States Government securities at specific levels. Such a change in policy still seems to me to be called for because the Federal Reserve System cannot in the long run expect to peg the prices of government securities and at the same time to meet its responsibility of exercising effective control over the credit base of the country. With many billions of dollars of United States securities in the hands of individuals and institutions who wish naturally to shift to other investments whenever more attractive yields are available, practically unlimited amounts of Federal Reserve credit can be released, not by the deliberate design of the Federal Reserve authorities but at the initiative and will of the holders of these securities. However justifiable the maintenance by the Federal Reserve System of a pattern of yields might have been as a wartime measure when all major segments of the economy were subject to more or less regulation, an open door to Federal Reserve credit is entirely inconsistent with effective credit control at other times.

"The past year has demonstrated anew the difficult dilemma faced by the Federal Reserve authorities as a result of this policy. Such a large volume of bonds has had to be absorbed in order to hold the market at the support levels that they have found it necessary to seek ways and means to offset the Federal Reserve credit which is thus released. The tremendous size of these transactions indicates the dimensions of the problems with which they have been confronted although it should be recognized that within the limits imposed by the pegging policy they have conducted their market operations with great adroitness. The Federal Reserve banks have been able largely to offset their support purchases of bonds by reducing their holdings of Treasury bills and certificates, partly through open market sales and partly through the retirement of debt by the Treasury with the aid of a budget surplus. The existence of a budget surplus was indeed a fortunate circumstance but as a credit control measure it is at best a device lacking in precision for this purpose and, much more to the point, it is not sufficiently certain to be a satisfactory foundation on which the power of the monetary authorities to restrict credit should depend.

"In addition to these measures, the authorities have also invoked higher member bank reserve requirements in an effort to prevent Federal Reserve credit, released through bond purchases, from being used as the basis of credit expansion by the commercial banking system. The plain fact of the matter is that this is a method which cannot be depended on to accomplish the desired results for it may at times succeed only in shifting more securities to the ownership of the Reserve System. It is moreover unduly blunt for it disregards the wide variations in conditions affecting individual banks and sections of the country.

"It has thus become increasingly clear that if the present support program is continued, the country cannot escape paying the cost of that action either in persistent and increasingly dangerous price inflation or in the application of controls designed to hold in check the volume of government securities offered to the Federal Reserve banks. Therefore, it is highly important that the full implications of such controls be made clear because, in order for them to accomplish their purpose, they would have to restrict effectively the freedom with which holders of government securities may dispose of them. It is possible that control measures might involve the adoption of some such plan as the one advocated by several Federal Reserve officials to require commercial banks to keep additional reserves against deposits in United States certificates, and of some form of restriction or prohibition on the right of insurance companies, savings banks and other investors to sell their holdings of such securities. Moreover, as has been suggested by at least one official, it might even be necessary to use the techniques of capital issue control which the British have adopted as part of their socialization program and which involves a dangerous intervention by government in the whole process of borrowing by individual business concerns.

"However, due to the tremendous size of the government debt and the refunding operations which will be necessary in the years to come, the Treasury Department evidently feels that the debt must be managed rather than allowed to stand on its own feet in the open market. Furthermore, the government apparently believes, for reasons which do not seem very convincing, that in the public interest its bonds should not be allowed to sell below par. Under these circumstances it is the Treasury Department which should take whatever steps are necessary to make effective the government's policy regarding its debt rather than the Federal Reserve System which has obligations of its own to discharge.

"The Treasury Department is not lacking in substantial powers which could be used in this connection. It can make use of the sizeable amount of cash continually flowing into the various trust funds subject to its control, to purchase bonds in the open market. It can make use of the budgetary surpluses which clearly are called for in view of the size of the debt. It can make the so-called restricted issues eligible for investment by commercial banks. It can broaden the market for government securities by restoring some measure of tax exemption to the income from them. Finally, it can even go so far, if necessary, as to purchase outstanding securities that do not command par in a free market with the proceeds of offerings of new issues with maturities or coupons more attractive to investors.

"I do not recommend any one of these measures above others. Rather I feel that it is desirable that all of them and any others which appear to deserve consideration should be carefully reviewed in order to find a way to relieve the Federal Reserve System of the necessity of using its powers and resources primarily to maintain the market for government securities. Only by so doing will it be possible to protect the integrity of the Reserve System, to restore its management to a position of independence in the conduct of credit control and to avoid the likelihood of an enveloping system of controls which will restrict the freedom of our financial and investment institutions and curb their usefulness as a constructive force in the development of the nation."

In his report Mr. Stewart revealed that there are now over 29,000 stockholders of the Bank of the Manhattan Company, of which only 45 registered holders of more than 2,000 shares represent less than 10% of the total capital stock. He estimated gross operating earnings for this year at $22,800,000 which compares with $20,275,000 for 1947. Interest on loans estimated at $11,750,000, will show an increase of about $1,900,000 as a result of a larger volume and somewhat higher rates. Interest and dividends on securities will approximate $6,900,000, about the same as last year. The average annual rate of return on all earning assets was 2.18% for the first 11 months of this year compared with 2.01% for 1947. Commissions and fees, which are derived from personal and corporate trusts, commercial credits and service charges, are expected to reach $3,450,000 as against $2,875,000 the year previous. Other earnings will be about $700,000, or $100,000 greater than in 1947.

Mr. Stewart also estimated total expenses at $17,500,000 against $16,157,000 last year. The increase is accounted for almost entirely by two major expense items; taxes, estimated at $3,450,000 this year, will be over $1,000,000 higher; and salaries and wages, estimated at $8,300,000, will be about $300,000 higher. Other expenses, which include assessments of approximately $1,000,000 for Federal deposit insurance, unemployment insurance and social security, will remain close to the same level as in 1947.

Net operating earnings are estimated at $5,300,000 for this year, compared with $4,118,000 last year, equal to $2.65 per share against $2.05 in 1947.

With Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—John H Auerbach, Jr., has become associated with Shearson, Hammill & Co., 618 South Spring Street. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

Wm. R. Staats Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Willard Daggett has been added to the staff of William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange.

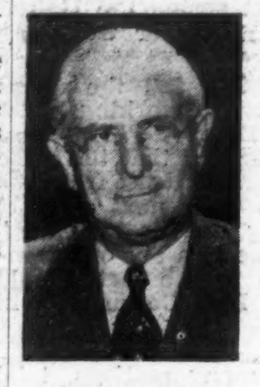
Teamwork for Prosperity

By HON. CHARLES SAWYER*

Secretary of Commerce

Asserting he is believer in private enterprise, and importance of profit must be recognized and utilized, Secretary Sawyer contends if businessmen will analyze problems of the economy dispassionately and if government officials will place confidence in businessmen, "we can work together to halt spiral of inflation and create climate favorable to sound economic growth." Urges increasing supply of goods and services through productive efficiency.

I am honored by the invitation to address the National Association of Manufacturers. This is one of the nation's most important business groups, and anything it says or does deserves the attention of the American people. Tonight, in this month of December, 1948, we are spectators at a vast and awful drama. No intelligent human being can stand unmoved as he views the agony and upheaval which our changing world discloses. Movements of such scope and portent are taking place before our eyes as to stagger the imagination. We are, however, not only spectators of this historic play, but actors in it, and on our stage at this moment we are faced with and must assume certain responsibilities. Tonight I shall discuss only those which are related to our domestic problems and which deal with the subject of your convention — "Teamwork."



Charles Sawyer

In selecting this theme for your meetings you have shown that you are keenly aware of one of the great needs of the nation at this stage in its development. As Secretary of Commerce speaking to this important business group, it is appropriate for me to talk mainly about teamwork between government and business. Last month I spoke at the National Foreign Trade Convention on cooperation between government and business in the development of world trade. Tonight I want to talk about teamwork between government and business in the maintenance of a prosperous domestic economy.

My remarks will not be limited, however, to a discussion of cooperation between business and government. Our society is complex, and it includes other groups which exert a strong and immediate influence upon the actions of business and of government. It would be impossible as well as unrealistic not to recognize the impact of these other groups upon our national life.

Many times in the past three years I have reflected on the difference between our society in time of peace and in time of war. During the war we organized a national team that confounded our enemies and amazed the whole world—including ourselves—with its efficiency and power. Industry, labor, agriculture, and government worked together to support our armed forces and to keep our economy sound and strong. Our objective was clear, and the motivation for team play was powerful. We must find a substitute for that motivation in time of peace. Back in my college days I was deeply impressed by an essay written by a great American philosopher William James. It was entitled "The Moral Equivalent of War." James said that we must find ways to make peace as thrilling as war. We should transfer the excitement and the all-out sacrifice and cooperation of war to the pursuits of peace.

A New Philosophy of Cooperation

The time is ripe for a new philosophy of cooperation that will unite Americans in an effort to make the greatest use of our energies and our resources. It is important to consider carefully the goals toward which we are moving, and to decide how we as a people can reach those goals together. May I present to you a few ideas about what we should try to accomplish, and a few suggestions about the ways we can work together to do the nation's job.

Our first objective is to maintain full employment and continue to produce at high levels. This was clearly stated as our national policy in the Employment Act of 1946. May I remind you that this was a bipartisan measure, passed by an overwhelming vote. In maintaining these high levels of employment and production we must find ways to check inflation and prevent depression.

Our production and employment since the war have been even more amazing than our production during the war. All of us can remember the skepticism that greeted Franklin Roosevelt's remark about "sixty-million jobs" in 1944. Yet we have reached and surpassed that goal. In terms of goods and services produced we have broken some of the wartime records. In October we were producing steel at a rate of 94 million net tons a year, as compared with the wartime peak rate of 92 million net tons. Our ouput of electric power in 1948 to date is at the rate of 332 billion kilowatt hours per year, as compared with the wartime peak year production of 280 billion kilowatt hours. Crop production in 1948 has broken all previous records.

In spite of these present high levels of production, in many fields we are lagging behind the demand. Many industries cannot buy the kinds of steel they need. Despite our unprecedented output of electric power, it does not by any means satisfy the needs of our homes and industries.

For the first time in our history we have seen what happens when there is a full and effective demand for what our industries can produce. This year there will be a total of over 900,000 new starts on domestic housing units. To meet the housing needs of our growing population and to meet the housing standards compatible with a fully employed economy, a million housing units a year are necessary as a sustained rate of construction. In October we were producing passenger automobiles at the rate of over 4 5 million a year.

With continued high levels of employment, the demand will sustain this rate of production for several years. In some fields, notably in agricultural products and the so-called "soft goods," production seems to be catching up with demand. But our total production has not been sufficient to satisfy the total demand. We have become acutely conscious of the fact that in a period of large-scale ex-

(Continued on page 30)

*An address by Secretary Sawyer before 53rd Congress of American Industry, sponsored by the National Association of Manufacturers, New York City, Dec. 3, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

One "noble experiment" launched by the Republicans on the House Appropriations Committee will go out of the window now that the Democrats are back in control of Congress. Under the authority of the reorganization act, they set up their own staff of investigators to go behind the Budget Bureau and into the various agencies and make detailed studies of their requests for appropriations. On top of this they augmented the staff at both sessions of the 80th Congress with top-notch auditors, accountants and researchers from private enterprise and Chambers of Commerce, tax-payers' organizations and the like.

Carlisle Bargeron

Clarence Cannon who returns to the Chairmanship of the Committee never liked the idea, sniped at it every opportunity he had. Naturally he didn't like the idea because the work these fellows did was against the President's budget. Manifestly, he isn't going to let them come back.

But even the permanent staff of the Committee will be hamstrung. The abler members are leaving, notably the chief, Robert E. Lee, Jr., former FBI agent.

It brings up an interesting question as to what will happen to many of the other professional committee staffs created by the reorganization act. Insofar as their main function is to investigate agencies of the government, they will simply sit on their hands because it goes without question that the Democrats of Congress are not going out to dig up stuff which will embarrass their own administration. The question arises, too, as to what service these staffs could have rendered had the Republicans captured the Presidency and retained their control of Congress. Apparently they can be of service only in such situations as obtained in the 80th Congress when the Republicans controlled the legislative body and a Democrat, the executive branch.

Yet these fellows, getting good salaries, have been added to the payroll. It is what is known as the evolution of government and ours has really evolved in the past 16 years.

For nearly two years the so-called Hoover commission has been working upon a nonpartisan plan of streamlining the government. Mr. Hoover has been to the White House recently and Mr. Truman has said he is right behind this group's findings which are almost complete. It will be interesting to see what becomes of their momentous study when it is finally presented. The best guess is that the only feature enacted into law will be the recommendation for higher salaries in the higher eschelons—in order that we can get the best abilities in government. Nonsense! We will have the same old crowd or their counterparts.

It is with no intention in the slightest of disparaging the work of the Hoover commission that I point out that the government archives are filled with reorganization plans which never got anywhere. It is that I simply can't get away from the hopelessness of the situation.

This writer spent several weeks in Tennessee during the recent campaign. I went into every county, criss-crossed the state in an automobile at least 10 times. Pretty much everywhere I saw the majestic dams erected by the TVA, as pretty things as one would want to see.

For years the Leftist propaganda has been to the effect that the reactionary doubters said nothing like this could be done. TVA has proved them wrong and similar set-ups should be established over all the country. I don't know of anyone who ever said that dams couldn't be erected and that being erected they didn't make pretty things.

But over all that state I could find no single instance of where and how the lives of the people had been the slightest improved by the TVA. The tremendous industrial development about which we have heard seems to be no more than you would expect in a span of 15 years.

Although electricity is not a complete happiness for households in itself I had assumed that even the smallest farm house would have it in abundance. Consequently, I was amazed to find clean and sprightly looking little homes in such a thriving community as Johnson City without electricity or even inside toilets.

Of course, they have such big industries down there as Alcoa. But there is not the slightest doubt that they could have been supplied with power by private industry.

A big demand of the State now, and one which Governor Dewey went out of his way to respond to, is for the erection of a steam plant at a place called Johnsonville. It will unquestionably be authorized by the next session of Congress. Why a steam plant when the whole argument for TVA was the development of waterpower, which could be worked in with flood control and navigation? Well, waterpower has gone to the limit of its capacity. Additional power is needed for the continued development of the area and it must be steam. The private utilities have all been run out of the area so the steam plant must be a TVA enterprise.

I said I couldn't see where the lives of the people had been improved by the TVA. Oh, there has been a tremendous improvement, of course, for those legions who work for the TVA.

A. G. Becker Offers Younker Bros. Stocks

A. G. Becker & Co., Inc., is offering today (Thursday) an issue of 34,000 shares of 5% sinking fund preferred stock, par value $50, and 70,000 shares of common stock of Younker Brothers, Inc. The preferred stock is offered at par and the common at $26 per share. Proceeds will be used to retire unsecured bank loans and for general corporate purposes.

Younker Brothers, Inc., operates department stores in Des Moines and Sioux City, Ia., and branch stores in Ames, Mason City, Fort Dodge and Marshalltown, Iowa.

For the six months ended July 31, 1948, net sales were $16,192,727 compared with sales of $26,353,456 for the year ended Jan. 31, 1948.

The Prospective Trend of Interest Rates

By AUBREY G. LANSTON*

Executive Vice-President, The First Boston Corp.

Mr. Lanston, referring to our present economy as "somewhat mixed," points out there are two Treasury budgets, one concerned with accounts, the other with cash receipts and expenditures. Says latter alone exercises deflationary or inflationary impact on our economy, and therefore is a gauge of trend of government bond interest rates. Holds it is both too late and too early to remove Treasury pegs and no adequate solution has been found for dilemma of Federal Reserve and Treasury in their joint debt management policy. Opposes increase of non-marketable Treasury securities and proposes relief for low income groups from dividend taxation to encourage equity investment.

We do not know, at the present time, what the President has in mind with respect to the size and character of our Defense Program or for ECA. The amount and kinds of increased taxes that are in the offing are far from crystallized. The form, and extent of labor law revisions is not clear. The business economy is becoming somewhat mixed. In many soft-goods industries we have a buyers' market. In most hard-goods industries we have a sellers' market. Attempts may be made to stretch a fourth or fifth round of wage increases across all types of industry. This could be a last straw for industries which today are dominated by buyers. We have an economy precariously balanced between deflationary trends and inflationary trends. The government's program can swing us either way. Under these circumstances it is difficult indeed for me to discuss intelligently with you the things which you may expect of me, namely, the prospective trend of short-term rates of Treasury 2½s, corporate bonds and so forth.

Aubrey G. Lanston

I do not believe that it is possible to deal adequately with interest rates, or with business prospects until the things which I have mentioned have redefined the scope of the problems involved in Treasury debt management, Treasury financing techniques, the policies and attitudes of the Federal Reserve System—and the degree by which these twist or distort the impact of more natural forces. I feel bound, therefore, to ask your forebearance while I discuss with you other items which bear importantly on the questions which you may have in your minds.

I wish to comment on the Federal budget, because the Federal budget will bear on Treasury and Federal Reserve policies and on taxation.

I wish to discuss some phases of Treasury debt management and financing policies because that somewhat mysterious thing termed "technique" is no longer an unimportant complicated detail to be ignored.

I then would like to refer briefly to Federal Reserve credit policies and open market operations.

Finally, I wish to introduce a subject which is very important but may seem strangely placed in an address to savings bankers. It is in the field of taxation. It bears on the lack of equity capital and on labor-management relations.

The Treasury Budget

First, with respect to the Treasury budget. We have two budgets—one—a bookkeeping record of the receipts and expenditures of the government (the Treasury daily statement figures), and the cash budget which reflects only the Treasury's cash receipts and cash expenditures.

If the Treasury's bookkeeping budget shows a surplus it is a smaller one than that which results from subtracting the Treasury's cash expenditures from its cash receipts. The Treasury can show a sizable deficit in its bookkeeping budget and yet be withdrawing from the economy more funds, via cash receipts, than it is putting back by its expenditures.

These two budgets are used with insufficient discrimination. If the Treasury has a surplus of cash receipts over expenditures, then the Treasury is exercising a deflationary influence. Under such a circumstance it would be ridiculous to claim that a deficit in the bookkeeping budget requires that we increase taxes because "deficits" are inflationary.

The difference between the two budgets is largely due to the fact that we collect in so-called "contributions," and in actual taxes for the account of Social Security and other trust funds more money than we pay to the beneficiaries of these funds—as of the present time. It is unfortunate that we describe these monies as "trust" funds. It creates a great obstacle by appealing to the prejudice of a dictionary definition. Partly because of this we issue Treasury bonds in exchange for money instead of saying "I.O.U.," as is true of paper money.

Whether we issue bonds to the funds is immaterial to the nature of the obligation. We pay "interest" on them, but we could pay the same money more honestly by direct permanent appropriations. The sum total of the bonds which we issue, plus the interest which we pay, less the expense of running these funds or agencies represents nothing more than a liability which the Treasury owes, by law, to the beneficiaries, of the particular funds. We could keep just as good a record of these facts without running two budgets—one of which is hardly that.

When, and as these "trust" funds have to pay out more money in benefits than is received for a given period, there can be only one result: the Treasury will owe the difference. If the Treasury has a cash surplus from other receipts it is in a position to make payment. If it does not have such a surplus it must borrow from the public. The future contingency that the Treasury must redeem an I.O.U. from future surplus funds or future public borrowings does not change the balance between the cash receipts or expenditures which exists today—and which affects today's conditions.

When, therefore, the matter of increased taxation is brought to the attention of the Congress, the only budget which should receive consideration on economic grounds is the cash budget. It is not the one which deals in inter-governmental transfers and future liabilities.

Currently, the trust funds create an excess of payments to the Treasury of about $3 billion per annum. If a broad Social Security program is enacted the volume of these receipts will be increased. In the cash budget, therefore, there is a $3 billion or greater cushion against a deficit. The government's bookkeepers should not ask us to believe that any "deficit" of lesser amount necessarily justifies higher taxes. Yes, we need to reduce our debt but let us do this under some long-range calculated program. Taxes are too high now—measured in terms of the general welfare of a private capital system. Certainly we should not increase them by mistaking figures for facts.

Treasury Debt Management

My second subject concerns Treasury debt management and financing policies. The Treasury has been struggling with the problems borne of its attempts to control the rates of interest at which it borrows. This originally sprung from a misguided New Deal belief that by holding these charges down, someone was doing our citizenry a favor. It has long since been recognized, I believe,

(Continued on page 28)

*An address by Mr. Lanston before the Mid-Year Conference of the National Association of Mutual Savings Banks, New York City, Dec. 6, 1948.

Natural Gas as Industrial Fuel

By PAUL R. TAYLOR*
Vice-President, Stone & Webster Service Corporation, New York City

Pointing out natural gas will soon be available in all large industrial centers, Mr. Taylor contends, because of its relative cheapness and stability of cost, it will replace in many cases manufactured gas and other solid and liquid fuels. Stresses advantages of natural gas in its constant heating value and burning characteristics as well as in its cleanliness and freedom from injurious ingredients. Sees natural gas an asset of highest value to a community.

The delivery of natural gas through large diameter pipe line systems to areas heretofore unconnected with sources of natural gas always gives rise to much speculation concerning the use of that product. Communities never before served by natural gas are inquisitive concerning the characteristics, the cost, the reliability, the safety and the economic utilization of this fuel. Every area approached by natural gas pipe lines shows keen interest in what the effect will be on local industry insofar as its improvement and growth are concerned. Based upon experience and observation, this paper has been prepared for the purpose of delineating the resultant effects upon industry in communities whose manufactured gas facilities have been either augmented by or adapted to natural gas.

Paul R. Taylor

The economic welfare of any community, the comfort of its citizenry, the existence of profitable industry and resulting employment of workers depend upon a continuous flow of fuel into the territory. This constant delivery of different kinds of solid and liquid fuel by rail and water is augmented in a most substantial manner when natural gas, flowing freely through a pipe line, is available. This fuel, free from impurities, non-toxic in character and reasonable in cost, exerts a profound economic influence upon the region into which it is introduced. The relatively small amount of labor necessary for the production and transportation of natural gas makes its supply definitively less vulnerable to interruption by reason of labor disputes than the supply of other kinds of fuel. Its introduction into a region tends to unify local gas requirements. This relieves the difficulties imposed on refined heat operations often caused by the variety of combinations found in a manufactured gas picture involving coke oven, carburetted water, oil gas and liquefied petroleum gases.

Growth of Natural Gas Industry

The natural gas industry today is attracting attention not usually accorded to an industry that had attained several decades ago what was thought to be an age of maturity insofar as production and use are concerned. Natural gas was discovered and put to use in the Appalachian area of the United States as early as 1870. Subsequently, many new fields and large reserves of gas were discovered in this area. Even though the sources of this fuel lay adjacent to the coal reserves of this region, natural gas gained early popularity as a fuel for domestic and industrial purposes in the states of West Virginia, Pennsylvania, Ohio and Indiana. Its adaptation to local use had the effect of encouraging the expansion of certain types of local industry, but no particular effort was made to carry this fuel to centers of large population and important industry located at any considerable distance from the natural gas producing area.

About 1925, the natural gas production picture changed. The midcontinent area of the United States came into the public eye. Discoveries of oil and attendant discoveries of natural gas in Texas, Oklahoma and Kansas increased in size and number. The Panhandle field of Texas and Oklahoma and the Hugoton field of southwestern Kansas were found to contain reserves of dry natural gas hitherto unapproached in size. Only a few large centers of population or industrialized business were located in these areas of discovery. The economic necessity of providing an outlet for these newly discovered reserves of fuel became apparent and ingenious minds went to work on the problem. The natural solution was to conduct the gas to already existing centers of industry rather than to remove industry to the natural gas areas. The problems of the design of pipe line systems suitable for the transmission of gas at high pressures for long distances were attacked by the engineers. These systems began to radiate from the centers of natural gas production. Atlanta, Memphis, Mobile and St. Louis were connected with pipe lines delivering natural gas from Louisiana and East Texas. Panhandle Texas and Southwest Kansas produced gas for transmission to Kansas City, Denver, Omaha, Minneapolis, Chicago and Detroit.

Natural Gas Reserves

The continued expansion of these long distance pipe line facilities and the increasing demands of the markets which they served posed the question as to whether there existed sufficient natural gas reserves available to pipe lines already built as well as to those which would follow to the extent that the necessary investment would be profitable and the markets assured of many years of natural gas service. In spite of the fact that the production of natural gas increases every year, new discoveries have had the effect of not only offsetting the depletion but also adding to the available reserves. According to the Report of the American Gas Association Committee on Natural Gas Reserves, published jointly by that Association and the American Petroleum Institute in a pamphlet entitled "Proved Reserves of Crude Oil, Natural Gas Liquids and Natural Gas," the proved Natural Gas Reserves of this country as of Dec. 31, 1947 were 165.93 trillions of cubic feet. This was an increase of 5.35 trillions of cubic feet over the reserve figure shown at the end of 1946, even though 5.63 trillions of cubic feet were produced in 1947. As long as this trend in natural gas reserves continues, new pipe line systems will arise to connect markets heretofore unserved.

Manufactured Gas and Industrial Markets

Large centers selected for connection with natural gas were already provided with manufactured gas service, as were many smaller communities lying adjacent to the pipe line systems. The manufactured gas plants in these localities were for the most part the product of modern engineering. Efficient methods of producing gas from solid and liquid fuel had been in operation for many years. Storage facilities were, in most cases, sufficient for the size and nature of the markets that had been developed.

For a great many applications the convenience of gas, its ease of control and the advances in furnace design introduced to offset lower coal and oil prices, made it the preferred industrial fuel. These refined industrial heat applications are of such character that gas service has become essential for their proper execution. However, it was necessary that gas be available in large quantities at a cost comparable to those of coal and oil for plants using relatively large quantities of fuel. Manufactured gas costs would not permit furnishing of large amounts of energy at such low prices. Production plants and distribution systems had been designed for the purpose of handling gas loads developed largely in the home and by the commercial customer and small industrial customers. The growth of plant and pipe system facilities had been geared to that particular class of business. In order to accept industrial load of any considerable size, it would be necessary to enlarge production, distribution and storage facilities to the extent that industrial markets could be served with the same ease and efficiency that existing loads were being cared for.

The item of cost presented a difficult problem. Industry was using coal and oil for the manufacture of steam and for processes of many kinds. In most cases, these fuels were converted directly into heat by direct firing. However, the gas company manufactured its product from these same fuels, coal and oil, which were bought in the same market as the industrial plant. These fuels were broken down by the application of heat either in coke ovens or water gas sets. It is not difficult to see that no matter how efficient this gas-making process could be made, it would be impossible to produce such a fuel and sell it profitably to the consumer at a cost which would be no greater than his cost of direct firing of oil or coal. Because manufactured gas could not present the desirable features of being available in large quantities and at a cost comparable to solid fuels, its sale to the industrial market is limited.

Industrial Use of Natural Gas

The development of the use of natural gas for industrial purposes after its introduction into areas formerly served only by manufactured gas can be illustrated by some reference to the actual load growth history in areas which have undergone such an experience.

Natural gas was first introduced in Mobile, Alabama in 1930. The supply was provided by United Gas Pipe Line Company and completely replaced carburetted water gas in the Mobile distribution system.

The pattern of the present industrial load at Mobile is one that is different from the ordinary situation in that it consists largely of sales to half a dozen consumers on an interruptible basis. A com-

(Continued on page 37)

*An address by Mr. Taylor before a meeting of the American Society of Mechanical Engineers, New York City, Dec. 2, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Distilling Industry—Analysis of outlook with comments on **Distillers Corp.-Seagrams, Ltd., National Distillers Products Corp., Hiram - Walker - Gooderman & Worts, Publicker Industries**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Johns-Manville Corp.**, and **P. R. Mallory & Co.**, a bulletin on current developments in **Railroads**, and a list of **Stocks Not to Buy** and exchanges to establish tax losses.

Gold vs. Uncertainty—Booklet discussing the metal in the light of prevailing conditions and telling how gold may be purchased in its natural state—metal department, Bache & Co., 36 Wall Street, New York 5, N. Y.

Oil Shares—Tables of relative values—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Outlook for Fire Insurance Stocks — Circular — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Railroad Developments — Leaflet—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Tax Exchanges—Leaflet—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Tax-Free vs. Taxable Chart—Scharff & Jones, Inc., Whitney Building, New Orleans 12, La.

Television Boom Parade—Circular—Koellner & Gunther, Inc., 31 Clinton Street, Newark 2, N. J.

Television Industry—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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American Can Company—Analysis—W. E. Hutton & Co., 14 Wall Street, New York 5, N. Y.

American Equitable Assurance Co.—Analysis—Allen & Co., 30 Broad Street, New York 4, N. Y.

Also available is a new analysis of **Globe & Republic Insurance Company.**

Anglo-Canadian Oil Company Ltd.—Review and analysis—Milner, Ross & Co., 330 Bay Street, Toronto, Ont., Canada.

Bingham, Herbrand Corp.—Leaflet—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Canada Dry — Leaflet — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are special leaflets on **Caterpillar Tractor, Douglas Aircraft, Electric Power & Light, Illinois Central Junior Bonds, Northern States Power, Petroleum Heat & Power Co., Public Service Electric & Gas,** and **Shell Union Oil,** and an analysis of **Bond Stores.**

Christiana Securities Co.—Circular—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Coral Gables Tax Participation Notes — Memo — Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Dumont Laboratories, Inc.—Detailed memorandum—Taussig, Day & Company, Inc., 316 North Eighth Street, St. Louis 1, Mo.

Electric Power & Light Corporation—Discussion—Oppenheimer, Vanden Broeck & Co., 40 Exchange Place, New York 5, N. Y.

Also available are comments on **North American Company** and **Imperial Oil Ltd.**

Froedtert Grain & Malting Company, Inc.—Discussion—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Imperial Oil Ltd. — Circular — Charles King & Co., 61 Broadway, New York 6, N. Y.

Liberty Products Corporation—Descriptive circular — Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Missouri Pacific Railroad Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Muter Co.—Circular—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Newmarket Manufacturing Co.—Circular—Schirmer, Atherton & Co., 50 Congress Street, Boston 9, Mass.

North American Refractories Co.—Card memorandum—Marx & Co., 44 Wall Street, New York 5, N. Y.

Northern States Power Company, Minn.—Special write-up—A. C. Allyn and Company, Inc., 100 W. Monroe Street, Chicago 3, Illinois.

Philadelphia Electric Company—Brochure discussing outlook by H. B. Bryans, President of the company, delivered before the New York Society of Security Analysts.

Rothmoor Corp.—Circular—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Ill.

Sears, Roebuck and Co.—Analysis and opinion—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Southern Production Company, Inc.—Summary and reappraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 4, N. Y.

Southwestern Public Service Company — Revised descriptive analysis—Rauscher, Pierce & Co., Inc., Mercantile Bank Building, Dallas 1, Texas.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Texas Gulf Sulphur Company—Analytical brochure — The First Boston Corporation, 100 Broadway, New York 5, N. Y.

Thermoid Co.—Circular—Blyth & Co., 14 Wall Street, New York 5, N. Y.

Time, Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

Winters & Crampton Corp. — Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of Miles Shoes, Inc.

REPUBLIC OF CHILE

Offer to Holders of Dollar Bonds of the Following Loans:

REPUBLIC OF CHILE Twenty-year 7% External Loan Sinking Fund Bonds, dated November 1, 1922
REPUBLIC OF CHILE 6% External Sinking Fund Bonds, dated October 1, 1926
REPUBLIC OF CHILE 6% External Sinking Fund Bonds, dated February 1, 1927
REPUBLIC OF CHILE Railway Refunding Sinking Fund 6% External Bonds, dated January 1, 1928
REPUBLIC OF CHILE External Loan Sinking Fund 6% Bonds, dated September 1, 1928
REPUBLIC OF CHILE External Loan Sinking Fund 6% Bonds, dated March 1, 1929
REPUBLIC OF CHILE External Loan Sinking Fund 6% Bonds, dated May 1, 1930
WATER COMPANY OF VALPARAISO 6% Bonds, Guaranteed Loan of 1915, dated December 8, 1915
MORTGAGE BANK OF CHILE Guaranteed Sinking Fund 6½% Bonds, dated June 30, 1925
MORTGAGE BANK OF CHILE Guaranteed Sinking Fund 6¾% Bonds of 1926, dated June 30, 1926
MORTGAGE BANK OF CHILE Guaranteed Sinking Fund 6% Bonds of 1928, dated April 30, 1928
MORTGAGE BANK OF CHILE Guaranteed Sinking Fund 6% Bonds of 1929, dated May 1, 1929
MORTGAGE BANK OF CHILE Guaranteed Sinking Fund 6% Agricultural Notes of 1926, dated December 31, 1926
CHILEAN CONSOLIDATED MUNICIPAL LOAN Thirty-One-Year 7% External Sinking Fund Bonds, Series A, dated September 1, 1929
CITY OF SANTIAGO, CHILE, Twenty-One-Year 7% External Sinking Fund Bonds, dated January 2, 1928
CITY OF SANTIAGO 7% External Sinking Fund Bonds of 1930, dated May 1, 1930

The Republic of Chile (hereinafter called the "Republic"), and the other issuers of Chilean bonds listed above, due to the effect of the world-wide depression and the drastically curtailed exchange position of the Republic, were forced, commencing in 1931, to suspend service payments on the above issues of outstanding dollar bonds (hereinafter called the "Outstanding Dollar Bonds"). This suspension of service continued until the adoption of Law No. 5580 of January 31, 1935, under which Law, as amended from time to time, the Republic has made certain payments in respect of interest and amortization on the external funded debt. As of December 31, 1947, there were outstanding $131,-262,000 principal amount of Outstanding Dollar Bonds of all of the issues listed above, of which over 92% had assented to the plan of Law No. 5580.

While the resources and exchange position of the Republic do not permit the resumption of service on the Outstanding Dollar Bonds at the original rates, the Republic, pursuant to authorization conferred by Law No. 8962 of July 20, 1948, hereby offers to the holders of the Outstanding Dollar Bonds, in exchange for such bonds, New Bonds upon the following conditions:

1. Holders of Outstanding Dollar Bonds will be entitled to exchange them for an equal principal amount of New Bonds, which will be dated January 1, 1948 and will mature December 31, 1993. Interest on the New Bonds will accrue from January 1, 1948 and will be payable semi-annually on June 30, and December 31; provided that the coupon maturing June 30, 1948 will be payable upon the exchange of Outstanding Dollar Bonds hereunder.

2. Interest on the New Bonds will be payable semi-annually at the following rates per annum on the principal amount thereof:

1948	1½%
1949 and 1950	2 %
1951, 1952, 1953	2½%
1954 and thereafter	3 %

3. During the years 1948 to 1953, inclusive, the New Bonds will share with other bonds of the external funded debt in all currencies in a general sinking fund for this total external funded debt in the amount of $2,531,000 per annum. Such fund will be applied semi-annually to the amortization of any bonds of the external funded debt payable in any currency either through the purchase of bonds below par or through drawings by lot at par; provided that commencing in 1949 there will be applied to the amortization of bonds in any currency assented to the new readjustment plan at least a proportionate amount of the amortization fund.

For the year 1954 and thereafter, the Republic will pay total service in the amount of 4% of the aggregate principal amount of New Bonds issued and outstanding at December 31, 1953; provided, however, that if this Offer should be extended beyond December 31, 1953, the amount of the service shall be increased as set forth in the General Bond. There will be provided for amortization of the New Bonds annually commencing January 1, 1954 the difference between the total service requirements on such basis and the annual interest requirements on the New Bonds at the rate of 3% per annum. Such funds will be applied semi-annually to the amortization of New Bonds either through the purchase of New Bonds below par or through drawings by lot at par.

The Republic will reserve the right to increase any sinking fund installment.

The Republic has executed a General Bond dated as of January 1, 1948, which sets forth in full the obligations of the Republic with respect to the service of the New Bonds. Reference is made to the General Bond (copies of which are available for inspection at the office of the Fiscal Agent referred to below) for a fuller statement of the obligations of the Republic with respect to the service of the New Bonds.

The New Bonds will be the direct obligations of the Republic, which will pledge its full faith and credit for the punctual payment of principal, interest and sinking fund.

Principal and interest on the New Bonds will be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

The New Bonds will provide that in case default shall be made in the payment of principal, interest or sinking fund on the New Bonds, each such New Bond shall thereafter be entitled to the payment of service, to the enjoyment of the security, and to the benefit of all of the other provisions of the original bond contracts relating to the bonds in exchange for which the New Bond has been issued, except that, with respect to the bonds originally issued by the Mortgage Bank of Chile, the Water Company of Valparaiso and the Chilean Municipalities, the Republic shall be the sole obligor thereon.

The Republic will agree in the New Bonds that, if at any time after January 1, 1948, any lien or other charge should be created on copper, iodine or nitrate revenues to secure any external debt, the New Bonds shall *ipso facto* share in such lien or charge *pari passu* with any other creditors of the Republic.

As regards the Chilean external loans outstanding in pounds sterling and Swiss francs, the Republic declares that if the holders of any of such loans or bonds exchanged therefor should be accorded at any time after January 1, 1948 treatment more favorable than is offered through the present Offer to the Outstanding Dollar Bonds, either as to interest, amortization or otherwise, then the Republic will extend such more favorable treatment to the holders of the New Bonds.

Holders of Outstanding Dollar Bonds who desire to accept this Offer should deliver their bonds together with form letters of acceptance and transmittal to the Fiscal Agent of the Republic for the New Bonds, namely:

SCHRODER TRUST COMPANY,
Fiscal Agent,
Trust Department, 48 Wall Street,
New York 5, N. Y.

Copies of this Offer and of forms of letters of acceptance and transmittal may be obtained from the Fiscal Agent.

Outstanding Dollar Bonds delivered for exchange must have attached all coupons indicated in the letters of acceptance and transmittal. Where Outstanding Dollar Bonds are presented for exchange without one or more coupons thereto appertaining against which payments have been announced after December 31, 1948 under Law No. 5580, the New Bonds will be delivered in exchange therefor without payment of the matured coupons for the corresponding period or periods. Where Outstanding Dollar Bonds are presented for exchange without one or more of the other required coupons attached, New Bonds will be delivered in exchange therefor upon the furnishing of indemnity satisfactory to the Fiscal Agent with respect to such missing coupons; provided that in cases where the indemnity is not satisfactory to the Fiscal Agent, the New Bonds may be delivered without payment or attachment, as the case may be, of the coupons for the corresponding period or periods.

The delivery of New Bonds under the Offer will be accompanied by the payment in cash of any coupons maturing prior thereto (subject to the above provision with respect to Outstanding Dollar Bonds delivered without one or more of the required coupons), and, in the case of Outstanding Dollar Bonds not assented to Law No. 5580, the delivery of Scrip Certificates as hereinafter provided (or the payment of cash in lieu of Scrip Certificates in cases where any Scrip Certificates may have become payable prior to the presentation of such Outstanding Dollar Bonds for assent hereunder) and cash equal to the amount of the payment announced in 1948 under Law No. 5580 ($10.296 per $1,000 bond). The Republic reserves the right to deliver in the first instance temporary bonds in lieu of definitive bonds.

The present Offer is not conditioned upon acceptance by any specified percentage of Outstanding Dollar Bonds. The Offer will remain open for acceptance until June 30, 1951 unless extended by the Republic (except that the period during which bondholders who assented late to Law No. 5580 will be entitled to receive Scrip Certificates as hereinafter provided will expire two years from the date hereof).

The Republic is advised that the New Bonds are exempted securities under the Securities Act of 1933 since they are being exchanged with existing security holders exclusively and no commission or other remuneration is being paid or given directly or indirectly for solicitation of such exchange.

Application will be made to list the New Bonds of the Republic on the New York Stock Exchange.

* * *

The Republic will continue to provide service under the plan of Law No. 5580, as in effect on March 19, 1948, subject to the following provisions:

(a) During an interim period which shall terminate June 30, 1951 the revenues allocated to the service of the external debt under the plan of Law No. 5580 as in effect March 19, 1948 shall continue to be allocated for the same purpose. This interim period will terminate prior to June 30, 1951 if and when there have been assented to the new readjustment plan 66⅔% of the Outstanding Dollar Bonds, 66⅔% of the bonds outstanding in pounds sterling and 66⅔% of the bonds outstanding in Swiss francs. Such revenues shall be applied during the interim period to the payment of interest under Law No. 5580 and the balance of such revenues shall be applicable to the service of bonds of all currencies assenting to the new readjustment plan. Upon the termination of the interim period the revenues referred to in Law No. 5580 shall become part of the general revenues of the Republic and thereafter the external funded debt will be serviced out of such general revenues.

(b) Holders of Outstanding Dollar Bonds assented to Law No. 5580 and not to the new readjustment plan will have the right to the same interest and the same sinking fund to which they would have been entitled under the plan of Law No. 5580, as in effect on March 19, 1948, but the sinking fund shall come into effect and be applied only after January 1, 1954. As set forth above, the annual sinking fund of $2,531,000 to be provided under the new readjustment plan during the years 1948-1953 may be applied in part to the purchase or redemption of Outstanding Dollar Bonds assented to Law No. 5580 but not to such new plan.

(c) The period for assent to Law No. 5580 will terminate on December 31, 1948.

* * *

The Republic will issue non-interest bearing Scrip Certificates in the amount of the interest payments announced under Law No. 5580 which bondholders did not receive owing to non-assent or late assent to Law No. 5580. (No other provision is being made for payments in respect of back interest on Outstanding Dollar Bonds.) In the case of Outstanding Dollar Bonds not assented to Law No. 5580, the Scrip Certificates will be issuable to the holders of such bonds who exchange such bonds under this offer. In the case of bonds assented late to Law No. 5580 (after August 10, 1940 in the case of bonds of the Chilean Consolidated Municipal Loan and the City of Santiago loans, and after January 12, 1940 in the case of bonds of the Republic, the Mortgage Bank of Chile and the Water Company of Valparaiso), the Scrip Certificates will be issuable to the holders who presented such bonds for assent to Law No. 5580, upon presentation of a letter of claim for such Scrip Certificates to the above-mentioned Fiscal Agent. Forms for such letters of claim may be obtained from the Fiscal Agent. Scrip Certificates will be issuable in amounts equal to the amount of the aforesaid interest payments not received under Law No. 5580 except that in the case of Outstanding Dollar Bonds not assented to Law No. 5580 an amount equal to the payment announced in 1948 under such Law ($10.296 per $1,000 bond) will be paid in cash. The Scrip Certificates are to be delivered in groups of five Certificates, such five Certificates are to be of approximately equal principal amounts and are to mature successively on the thirtieth day of June in 1950, 1952, 1954, 1956 and 1958. As a service fund for the Scrip Certificates, the Republic will pay to the Fiscal Agent annually commencing in 1949 and so long as any Scrip Certificates remain outstanding a sum equal to $300,000 which amount will be applied to the payment at maturity or redemption of Scrip Certificates prior to their maturity date. The Republic reserves the right to purchase Scrip Certificates for retirement. **The period during which bondholders who assented late to Law No. 5580 will be entitled to receive Scrip Certificates hereunder will expire two years from the date hereof.**

* * *

Law No. 8962 of July 20, 1948 provides that, without regard to assent to the plan of Law No. 5580 or the new readjustment plan on the part of Outstanding Dollar Bonds issued by the Mortgage Bank of Chile and the Chilean Municipalities, the Republic upon the passage of said law became the principal obligor with respect to such bonds.

Offers on substantially similar terms will be made to holders of bonds of the external funded debt of the Republic outstanding in pounds sterling and Swiss francs.

* * *

As a contribution to the Foreign Bondholders Protective Council, Inc., toward its expenses, there will be deducted, as provided in the form of letter of acceptance and transmittal, from the cash payable upon the exchange an amount equal to ⅛ of 1% of the principal amount of Outstanding Dollar Bonds delivered for exchange.

* * *

This Offer is made following negotiations by the Republic with the Foreign Bondholders Protective Council, Inc., which has approved the inclusion of the following in this notice:

"The Foreign Bondholders Protective Council, Inc. considers that the offer of the Republic of Chile for adjustment of its dollar bonds provides material improvements, including a service on the bonds greater than at present or otherwise in prospect. The Council recommends acceptance of the offer by the holders of dollar bonds."

For the Republic of Chile
JORGE ALESSANDRI
Minister of Finance

Dated December 7, 1948.

Illinois Brevities

Halsey, Stuart & Co. Inc., headed a nation-wide group of investment bankers, who on Nov. 17 publicly offered $60,000,000 Northwestern Bell Telephone Co. 31-year 3¼% debentures due Nov. 15, 1979, at 101.375% and interest. Other Chicago houses included in the underwriting syndicate were: A. G. Becker & Co. Inc.; William Blair & Co.; Bacon, Whipple & Co.; Mullaney, Wells & Co.; Dempsey & Co.; F. S. Yantis & Co., Inc.; Martin, Burns & Corbett, Inc.; Alfred O'Gara & Co.; Patterson, Copeland & Kendall, Inc.; Sills, Minton & Co., Inc., and McMaster Hutchison & Co.

* * *

With the termination of the subscription period on Dec. 1, 1948, nearly 96%, or $15,648,300 of 3% convertible debentures offered on Nov. 1 by The Peoples Gas Light & Coke Co. were purchased through rights issued to stockholders, it was announced on Dec. 2 by James F. Oates, Jr., Chairman of the utility company. The unsubscribed balance of the debentures, amounting to $751,700 was underwritten by Halsey, Stuart & Co. Inc. (sole underwriter) who sold them at competitive bidding at an average price of approximately 103.96%.

* * *

Halsey, Stuart & Co. Inc. also was the sole underwriter of an issue of $3,000,000 Iowa Public Service Co. first mortgage bonds, 3¼% series due 1978, which was publicly offered on Nov. 17 at 101.93% and interest, the net proceeds to be used to pay for new construction, etc.

* * *

David A. Crawford, President of Pullman, Incorporated, on Nov. 15 advised the stockholders of that company that consideration is being given by the board of directors to possible acquisition of a controlling ownership in North American Rayon Corp. and American Bemberg Corp.

The consolidated net income of Pullman, Incorporated, for the third quarter of 1948 totaled $1,641,876, equal to 64 cents per share. This compares with earnings of $633,986, or 24 cents per share, in the same period last year. As of Sept. 30, 1948, working capital amounted to $120,718,345, equivalent to $47.02 per share of capital stock.

* * *

Another nation-wide group of investment houses headed by Halsey, Stuart & Co. Inc. on Nov. 24 publicly offered $40,000,000 Chesapeake & Ohio Ry. Co. refunding and improvement mortgage 3⅞% bonds, series H, due Dec. 1, 1973, at 100¾% and accrued interest. Other Chicago bankers participating in this offering were A. G. Becker & Co. Inc.; Harris, Hall & Co. (Inc.); Bacon, Whipple & Co.; Julien Collins & Co.; Dempsey & Co.; Farwell, Chapman & Co.; The Illinois Co.; Ketcham & Norgard; Mason, Moran & Co.; Alfred O'Gara & Co.; Patterson, Copeland & Kendall, Inc.; Robert Showers; Sills, Minton & Co., Inc., E. W. Thomas & Co., and F. S. Yantis & Co., Inc. The net proceeds were added to working capital.

* * *

In addition, Halsey, Stuart & Co. Inc., headed another banking syndicate, which included, among others, Harris, Hall & Co. (Inc.); Central Republic Co. (Inc.); Mullaney, Wells & Co.; Detmer & Co.; E. W. Thomas & Co.; F. S. Yantis & Co., Inc.; Alfred O'Gara & Co.; McMaster Hutchinson & Co.; Ketcham & Nongard, and Mason, Moran & Co., who on Nov. 23 publicly offered $50,000,000 Public Service Electric & Gas Co. (N. J.) 3% debenture bonds due 1963, at 101.209 and interest.

* * *

Included in the group of investment bankers publicly offering on Dec. 2 an issue of $30,000,000 Panhandle Eastern Pipe Line Co. 3¼% sinking fund debentures due Aug. 1, 1973, at 100.845% and accrued interest were also Halsey, Stuare & Co. Inc., and Harris, Hall & Co. (Inc.).

* * *

Definitive State of Illinois service recognition bonds, series A, maturing serially May 1, 1949, to May 1, 1972, and series B, maturing serially May 1, 1950, to May 1, 1960, are available for delivery in exchange for temporary bonds at the Continental Illinois Bank & Trust Co. of Chicago or at The Chase National Bank of the City of New York.

* * *

The registration filed with the SEC Sept. 27, 1948, covering 100,000 shares of $3.50 par value common stock of Goldsmith Bros. Smelting & Refining Co., Chicago, was withdrawn from registration on Dec. 2 because of "adverse market conditions." Of this issue, 54,000 shares were to have been sold by the company and 46,000 shares by selling stockholders.

* * *

William Blair & Co., Chicago, it was announced on Nov. 16, has placed privately an issue of $1,000,000 National Motor Bearing Co., Inc. (Redwood City, Calif.) 4% promissory notes due July 1, 1961.

* * *

A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Kebbon, McCormick & Co.; Bacon, Whipple & Co.; William Blair & Co.; Julien Collins & Co.; Mullaney, Wells & Co.; Reinholdt & Gardner, and Sills, Minton & Co., Inc., were included in a nation-wide group of investment bankers who on Dec. 2 publicly offered $26,500,000 6% interim notes due May 1, 1951, and 530,000 shares of 50-cent par value common stock of Transcontinental Gas Pipe Line Corp. in units of $50 principal amount of notes and one share of common stock at $52.50 per unit, plus accrued interest on the note from Nov. 1, 1948. Contracts, negotiated by White, Weld & Co. and Stone & Webster Securities Corp., both of New York City, have also been entered into for the purchase of $143,000,000 Transcontinental first mortgage pipe line bonds, 3⅝% series due 1968, by certain institutions for investment.

* * *

A. C. Allyn & Co., Inc.; Paul H. Davis & Co. and Straus & Blosser on Nov. 9 participated in the public offering of 80,000 shares of Tide Water Power Co. common stock (no par value) at $7.25 per share, the net proceeds of which will be used to pay for improvements, etc.

* * *

Rodger, Kipp & Co., Chicago, are publicly offering at $5 per share 30,410 shares of Chicago Dr. Pepper Bottling Co. (Del.) class A common stock, par $1 per share, the net proceeds to be used for additional working capital. On Nov. 27, 1948, the bottling firm entered into an agreement with Tru Ade, Inc., by which the former has secured the exclusive license to bottle Tru Ade beverages for sale in Cook County. Current assets at Oct. 31, 1948, amounted to $115,835, and current liabilities $72,307.

* * *

Bacon, Whipple & Co.; A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Julien Collins & Co.; Farwell, Chapman & Co.; The Illinois Co., and Sills, Minton & Co., Inc., also were included in the group of underwriters which purchased at $10.25 per share the 335,657 shares of common stock of Central and South West Corp. not subscribed for by holders of subscription warrants which expired on Dec. 3, 1948. Of the 659,606 shares of common stock offered for subscription to holders of the utility company's common stock of record Nov. 18, 1948, 323,949 shares were subscribed for. The underwriters sold common stock during the subscription period so there remained for public offering 174,682 shares.

* * *

The Illinois Co.; Farwell, Chapman & Co.; William Blair & Co.; Sills, Minton & Co.; Cruttenden & Co.; C. S. Brown & Co., and F. S. Yantis & Co., Inc., on Dec. 2 participated in the public offering of 350,000 shares of common stock (no par value) of Carolina Power & Light Co. at $30 per share. These 350,000 shares were part of 423,408 shares of Carolina common stock owned by Electric Bond & Share Co. at Sept. 30, 1948.

* * *

Harris, Hall & Co. (Inc.), in addition to arranging for the placement with two insurance firms of an issue of $1,000,000 Southern California Water Co. first mortgage bonds, 3% series due 1978, on Nov. 17 participated in the public offering of 36,000 preferred shares, 5½% convertible series, par $25, at $26.50 per share and dividends of the same utility company. The Chicago banking firm also was included in the same syndicate which also underwrote the offering to Water company common stockholders of 20,925 additional common shares (par $25) at $36 per share.

* * *

Harris, Hall & Co. (Inc.), it was announced on Nov. 23, has also placed privately an issue of $2,500,000 3.10% serial notes due semi-annually Nov. 1, 1954, to Nov. 1, 1963, of Sutherland Paper Co., Kalamazoo, Mich.

* * *

An issue of 50,000 shares of 5% cumulative convertible preferred stock of Griesedieck Western Brewery Co., Belleville, was publicly offered on Dec. 1 at par ($30 per share) by a group of underwriters headed by Edward D. Jones & Co. of St. Louis, Mo. The proceeds will be used, among other things, to prepay a portion of the long-term bank loan assumed by the Griesedieck' firm through the merger of Hyde Park Breweries, Inc., St. Louis, Mo., and to finance expansion resulting from the merger which became effective Nov. 20, 1948. The Hyde Park corporation will be continued as a separate division of the Griesedieck company.

* * *

Jewel Tea Co., Inc., Jewel Park, Barrington, reports that retail sales of $12,680,524 for the four weeks ended Nov. 6, 1948, were higher than any previous four-week period in its history. This is a gain of $1,711,789, or 15.6%, over the same period last year, for the 44 weeks ended Nov. 6, 1948, retail sales were $127,417,090, a gain of $21,796,387, or 20.6%, over last year.

The directors of Jewel Tea Co., Inc., declared a special dividend of 75 cents per share on the common stock, payable Jan. 3, 1949, in addition to the regular quarterly dividend of 60 cents per share which is payable Dec. 20, both to holders of record Dec. 10, 1948. The special dividend marks completion of the company's fiftieth year of operation.

* * *

Consolidated net profit of Domestic Credit Corp. for the six six months ended Sept. 30, 1948 amounted to $309,033 after provision for Federal income taxes and reserves, compared with $219,114 for the same period last year, an increase of over 40%.

Arthur Greene, President, also announced that all of the 150,000 shares of class A common stock of the company offered earlier in the year, were sold to executives, employees and management personnel at a price of $3.49 per share pursuant to the Stock Purchase Plan approved at the last annual meeting of the stockholders.

* * *

Consolidated net income of the Greyhound Corp. for the three months ended Sept. 30, 1948 amounted to $8,066,739 after all charges and taxes, equivalent after preferred dividends to 85 cents per share on 9,330,090 shares of common stock outstanding. This compares with net income for the same period last year of $7,909,253, equal to 84 cents per common share. For the first nine months of this year, consolidated net income totaled $12,440,721, equal to $1.31 per common share, compared with $13,839,825, or $1.46 per common share, in the similar period of 1947. Earnings for the 12 months ended Sept. 30, 1948, which minimize the effect of seasonal factors, were $1.67 per share.

* * *

The directors of the National Tea Co., Chicago, have declared an extra dividend of 50 cents per share on the common stock, payable Jan. 3, 1949 to holders of record Dec. 16, 1948.

* * *

Roy W. Clansky, President of Standard Forgings Corp., Chicago, on Nov. 1 announced that the backlog of orders at the present time is slightly in excess of $9,000,000. Net profit for the nine months ended Sept. 30, 1948 was $650,860, equal to $2.45 per share on the 266,000 shares of $1 par value common stock outstanding, compared with net of $253,247, or 95 cents per common share, for the corresponding period of 1947. Net sales totaled $9,768,802, against $7,564,126 in the first nine months of last year.

* * *

Cushman's Sons, Inc., Chicago, for the 40 weeks ended Oct. 2, 1948 reports net income of $595,089 after interest, depreciation, Federal taxes, and all other charges. This compares with net income of $463,793 for the corresponding 40 weeks of 1947.

E. E. Mathews Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Clifford B. Schiano is with Edward E. Mathews & Co., 53 State Street.

With F. L. Putnam & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Mortimer M. Pinansky is with F. L. Putnam & Co., Inc., 77 Franklin Street.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The annual election meeting and dinner of the Security Traders Association of New York, pictures of which appear elsewhere in today's issue, was held Dec. 3 at the Produce Exchange Luncheon Club. The affair, under the aegis of John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., President of the Association was pronounced a huge success by all attending.


John J. O'Kane, Jr.


James F. Fitzgerald

The slate presented by the Nominating Committee for officials of the Association for 1949 was elected without opposition. Officers-elect are James F. Fitzgerald, W. L. Canady & Co., Inc., President; John M. Mayer, Merrill Lynch, Pierce, Fenner & Beane, First Vice-President; Richard H. Goodman, Cohu & Co., Second Vice-President; John J. Meyers, Jr., Gordon Graves & Co., Secretary, and Wellington Hunter, Hunter & Co., Treasurer.

Elected as Directors for a two-year term were Alfred F. Tisch, Fitzgerald & Co., Inc.; James F. Musson, B. J. Van Ingen & Co., Inc.; Arnold J. Wechsler, Ogden, Wechsler & Co.; and George L. Collins, Geyer & Co., Inc. Charles H. Jann of Estabrook & Co. was elected a Director for a one-year term.

Lewis H. Serlen of Josephthal & Co. and John C. Blockley of Harris Upham & Co. were elected Trustees of Gratuity Fund.

Stanley Roggenburg, Roggenburg & Co.; John F. McLaughlin, McLaughlin Reuss & Co.; and Michael J. Heaney, Joseph McManus & Co. are the new National Committeemen. Henry Oetjen of McGinnis, Bampton & Sellger; Charles Zingraf of Laurence M. Marks & Co.; Carl Stolle of G. A. Saxton & Co., Inc.; Edward J. Kelly of Carl M. Loeb, Rhoades & Co.; and Abraham Strauss of Strauss Bros., Inc. were elected as Alternates.

The Nominating Committee elected for 1949 consists of John S. French of A. C. Allyn & Co., Inc.; D. Frederick Barton of Eastman Dillon & Co.; Thomas Greenberg of C. E. Unterberg & Co., Inc.; and Theodore E. Plumridge of J. Arthur Warner & Co., Inc.

NASHVILLE SECURITY TRADERS ASSOCIATION

Recently elected officers of the Nashville Security Traders Association are:


Buford G. Wilson


Thomas H. Temple


C. Evan Davenport

Buford G. Wilson, Jack M. Bass & Co., President; Thomas H. Temple, Temple Securities Corporation, Vice-President; C. Evan Davenport, Equitable Securities Corporation, Secretary-Treasurer.

MORE DALLAS GOLF WINNERS

Winner of the Blue List Trophy for municipal men at the NSTA golf tournament in Dallas was Russell Ergood, Stroud & Company, Philadelphia. The National Quotation Bureau Inter-City Team Trophy was won by the Dallas Bond Club. Members of this team were Winton Jackson, First Southwest Company; Nelson Waggener, Walker, Austin & Waggener; Louis Rodgers, Central Investment Company, and John B. Cornell, Jr., Dallas Rupe & Son.

COMING EVENTS

In Investment Field

Dec. 5-10 1948 (Hollywood, Fla. Investment Bankers Association 1948 convention at the Hollywood Beach Hotel.

Dec. 10, 1948 (New York, N. Y.) New York Security Dealers Association Annual Dinner at the Waldorf-Astoria.

Dec. 10, 1948 (Seattle, Wash.) Bond Traders Club of Seattle Annual Christmas Party in the Junior Ballroom of the Olympic Hotel.

Dec. 14, 1948 (New York, N. Y.) Investment Association of New York Annual Meeting at the Lunch Club, 63 Wall Street, beginning 3:45 p.m.

Oct. 5-9, 1949 (Colorado Springs, Colo.) National Security Traders Association Annual Convention at The Broadmoor Hotel.

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

The following officers were elected Nov. 29, 1948 to serve for the 1949 term of the Security Traders Association of Los Angeles:


William A. Miller


Jack H. Alexander


Raymond Passavant

President—Wm. A. Miller of Fairman & Co.
Vice-President—Jack Alexander of Bourbeau & Douglass.
Secretary—Wm. McCready of Geyer & Co.
Treasurer—Raymond Passavant of Maxwell, Marshall & Co.
Board of Governors—Sam Green of Pledger & Co., F. W. Shipley of Quincy Cass Associates, Wm. C. Pike of Buckley Bros.

Wilson, Johnson Adds

(Special to THE FINANCIAL CHRONICLE)

RENO, NEV.—William C. Chadwell is with Wilson, Johnson & Higgins of San Francisco.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

FT. LAUDERDALE, FLA.—Kenneth S. Lester is with Merrill Lynch, Pierce, Fenner & Beane.

To Discuss Investors' Year-End Tax Problems

J. K. Lasser, C.P.A., and Harry Silverson, attorney, will speak on "The Year-End Tax Problems of the Investor," at the New School for Social Research, 66 West 12th Street, on Thursday, Dec. 16, at 5:30 p.m. Mr. Lasser, who is the author of "Your Income Tax" and Chairman of the Federal Taxation Institute of New York University, and Mr. Silverson, member of the Institute's faculty, are guest speakers in the course, "Investment Today," given at the New School by A. Wilfred May, economist and editor.


J. K. Lasser

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The November issue of the "Federal Reserve Bulletin" just released contains an article entitled "Member Bank Earnings, First Half of 1948."

While considerable time has past since most banks issued their semi-annual statements and their results were interpreted, this article is interesting for several reasons: (1) it provides a means of comparing the individual factors influencing earnings over the past year and one-half, (2) it shows the effects of the trends which have been important in determining bank earnings, (3) it shows the effect on reported earnings of providing reserves for bad debts in accordance with the recent ruling of the Bureau of Internal Revenue, and (4) in as much as essentially the same basic factors are present today as have prevailed in previous periods, some idea of final results for 1948 can be obtained from this article.

For these reasons and because of the large investment interest in New York City and Chicago banks, detailed figures for member banks in these two central reserve cities are presented in the following tabulation taken from the "Reserve Bulletin."

In viewing the following figures, it should be remembered that there are seasonal differences in some of the items between first and second-half year periods. While the variations do not make comparisons meaningless they are of sufficient importance to justify attention when interpreting the results. As an example, bonuses paid to officers and employees and loans and charge-offs are generally larger in the last half of the year than in the first six months' period.

Central Reserve City Banks

	New York			Chicago		
	1st Half 1947	2nd Half 1947	1st Half 1948	1st Half 1947	2nd Half 1947	1st Half 1948
	(In millions of dollars)					
Earnings	222	229	233	55	58	60
On U. S. Govt. Securities	89	88	80	23	23	22
On other securities	12	13	12	4	4	5
On loans	68	76	85	18	20	22
Service charges on dep. accts.	5	6	7	1	1	1
Other earnings	47	46	48	9	9	9
Expenses	135	139	139	34	36	38
Salaries and wages	77	83	79	16	17	18
Interest on time deposits	4	4	4	5	5	5
Taxes other than on net inc.	5	5	5	2	2	2
Other expenses	49	48	51	11	12	13
Net current earnings before income taxes	87	89	95	21	22	22
Recovs., profs. on securs., etc.*			20			16
Transfers from reserve accts.	21	27		10	8	
on loans and securities			5			--
Losses and charge-offs **			12			9
Transfers to reserve accounts	12	32		6	9	
on loans and securities			27			8
Profits before income taxes	95	85	81	25	21	21
Taxes on net income	28	19	27	6	3	6
Net profits	67	66	54	19	18	15

*Not including recoveries credited to reserve accounts.
**Not including losses charged to reserve accounts.

The above figures provide the material for several interesting observations. Probably one of the most significant from the standpoint of operating results of New York City banks is the trend in expenses. After several years of rapidly rising operating costs, current expenses now appear to have levelled off. In the most important category under their heading, salaries and wages, comparisons between the first-half of 1947 and the first-half of 1948 show little change. Chicago member banks on the other hand, still show a rising trend in expenses.

Increases in earnings between the various periods were successive and arose permanently because of the increased return on loans. Decreased earnings on U. S. Government securities were more than offset by the larger earnings from loans and as a result net current earnings before taxes increased in each period. While the 1948 first-half results of Chicago banks were not comparable to those of New York, earnings were maintained at the same rate prevailing in the last-half of 1947.

Decreases in reported net profits in both cases were the result of setting up reserves for bad debts under the recent ruling of the Bureau of Internal Revenue. This policy of building up valuation reserves at this time should be a means of stabilizing reported earnings in periods of larger losses. At such time charge-offs will be made to reserves provided in more profitable times.

Banking and Business Prospects

By D. EMMERT BRUMBAUGH*
Secretary of Banking, Commonwealth of Pennsylvania

Pennsylvania's banking supervisor sees dual threat of more deficit financing and more inflation arising out of Administration's policy of waste and extravagance in government. Holds efforts to curb inflation through increased bank reserve requirements and instalment credit restrictions are not only ineffective but also harmful to banks and business. Expresses fear dual banking system will be abandoned because of centralized Federal control over all banking. Calls upon business to combat centralization trend.

It is important that we review the present banking and business situation in the light of past policies of the present Administration and changes in such policies promised in the successful candidate's platform. The past policies of the Administration must be reviewed on the record it has established during the entire 16 year period it has been in power. During that period we witnessed an era of deficit spending and bureaucratic waste which resulted in profound changes in the economic and financial status of our State and Nation. These changes have been made more drastic by World War II and the end of hostilities has not altered the situation materially. The continuation of hostilities with Russia through what is popularly termed "The Cold War," the continued deterioration of relations with Moscow which seems destined to make "The Cold War" very hot indeed, the European Recovery Program, the preparedness program involving defense expenditures estimated to amount to at least $15 billion annually, have added to the process of stress and strain upon our economy. I am sure that everyone agrees that America must be kept so strong militarily that no aggressive foreign power will ever be misled into attacking us.

D. E. Brumbaugh

Our economic security and financial stability are threatened from another source and I refer to the serious inflation we now face. If we are to keep America strong, united and prepared morally, physically and spirtually to meet the dangers from the outside, we must eliminate the dangers from within by curbing the inflationary spiral. Like a cancerous growth, inflation must be cured by getting to the roots, determining the cause of the disease and making a real correction at the source.

Economic and financial policies pursued by our government in the past several years lead me to the conclusion that existing inflationary pressures will not subside. There are signs that the Federal budget may swing over from a surplus to a deficit in coming months. Continuation of excessive spending and lending by government agencies, guarantees issued by such agencies, the purchases of long-term government bonds by the Federal Reserve Banks from non-bank investors, continued gold inflow and the large loaning and spending programs abroad, will add to the money supply. Until these policies are greatly modified in some instances and in other cases completely changed, I am of the opinion that the inflationary spiral will not be curtailed.

*An address by Mr. Brumbaugh before the Germantown Business Men's Association, Germantown, Pa., Nov. 22, 1948.

Controlling Credit

Let us examine the effect upon the existing banking situation which resulted from the action taken thus far by Federal officials to control credit. You will recall that several months ago, the Treasury Certificate rate was increased to 1¼%. The Federal Reserve Banks raised the discount rate to 1½%. The Board of Governors of the Federal Reserve System increased by 2% the required reserve fund against demand deposits and 1½% against time deposits. Controls on instalment credit were reinstated effective Sept. 20 through Regulation W. The only effect of the September increases in bank reserve requirements which can be discerned from available figures has been accelerated purchases by the Federal Reserve of long-term Treasury bonds. The holders of such bonds, taking advantage of the so-called "pegged prices," sold long-term governments and used the funds, in some cases, to meet additional reserve requirements, but in the main, to increase loans or shift into securities with lower risk than long-term governments. It is important to know that by far the largest sellers of government bonds to the Federal Reserve are the life insurance companies. Published figures indicate that in 1947, life insurance companies reduced their government bond holdings by one billion, six hundred million dollars and at the same time, their mortgage loans increased $884 million. In the first eight months of 1948, the same companies have reduced their holdings of United States Government securities by an additional $2 billion and during the same period, mortgage loans increased an additional one billion, six hundred million dollars.

I think you will agree with me that as an anti-inflationary measure, the increased legal reserve requirements have proven largely ineffectual. Unquestionably, the large sales of government securities by life insurance companies proved an important factor in cancelling out any effect upon credit through increased reserve requirements. These facts emphasize to me that any attempts to control credit through changes in reserve requirements will not provide any relief from inflationary pressures so long as practically every type of lender, excepting banking institutions, remains free from regulatory restraint. More than that, I believe that in the long run, continued increases in legal reserve fund requirements will work a hardship upon our banking structure. Everyone knows that the banker has had to face higher taxes, substantially increased salaries, a heavy increase in the cost of equipment, supplies and many other direct and overhead costs. On the other hand, the "easy credit" policies of the Federal Government have forced the banker to keep his interest rates on loans at a very low rate and the yield on his bond holdings continues to be extremely low. As a result, some of the socalled "country banks" are finding it difficult to produce satisfactory earnings and their problem has been intensified by the increase in reserve requirements forced upon them by Federal authorities. This is so because such banks were forced to sell to the Federal Reserve a sizable amount of interest-bearing government bonds in order to meet increased reserve requirements and to turn over the cash from the liquidation of such securities to the Federal Reserve to be frozen in their legal reserve funds.

Treasury Certificate Rates

With respect to the increase in the Treasury Certificate rate and the Federal Reserve discount rate, this move seems contradicory to the policy of rigidly pegged markets for government bonds. The contradiction in these policies is pointed out very well in the summary report of the Committee on Public Debt Policy, which states:

"Interest rates have two great functions which they cannot fulfill without some flexibility of movement.

"One of these functions is the adjustment of the supply of savings to the amount required for a dynamic economy under capitalism. . . . In the long run the price of money—the interest rate—is one of the factors to insure a flow of needed savings.

"The second and more immediate function of the interest rate is as one of the controllers of the flow of credit. In the old days booms were checked when the money ran out, and the signal was a rise in money rates. Today this mechanism is dominated by the central bank and the treasury in each country. But even central banks and treasuries cannot have their cake and eat it too; they cannot exercise controls over excessive credit expansion and at the same time keep money excessively cheap for government borrowing. When a Federal Reserve bank buys government bonds to peg the price, Federal Reserve money flows out and increases the money supply. This is wholly inconsistent with the effort to fight inflation by reducing the money supply in other ways. Also the pegging of the price prevents an upward move in money rates which in itself has a restraining influence on the security markets, new financing, and borrowing from banks.

"If we are to avoid great swings of the business cycle that do so much damage, we cannot afford to be left without the response which

(Continued on page 37)

Inflation and Its Implications

By B. E. HUTCHINSON*
Chairman, Finance Committee, Chrysler Corporation
National Vice-President, National Association of Manufacturers

Stressing seriousness of inflation problem, prominent industrial executive says its solution can be found only in sound political action. Points to our irredeemable currency as making nation susceptible to inflation, and denies high and unjustifiable industrial profits contribute substantially to current inflationary trend. Urges as primary remedy of inflation reestablishment of sound monetary system and revision of Federal fiscal and banking policies having ultimate aim of restoring free gold coinage system. Also advocates new tax structure and government economy.

Among the many problems which confront industry today, those related to the inflationary trend in which the country is now involved are the most urgent. Among the immediate consequences to industry of the inflation we have already experienced are to be found the public dissatisfaction with rising prices, the recurrent discontent of wage earners with their earnings, the increased financial risk inherent in inventories and forward purchase commitments priced on a basis of dubious long-term stability, and depreciation charges known to be wholly inadequate to provide for the replacement of those tools and production facilities now being worn out and obsoleted.

B. E. Hutchinson

In this discussion no attempt will be made to evade the political aspects of inflationary phenomena. The non-partisan tradition of the NAM forum will not be violated, however. An objective analysis of the current political tenets and recent legislative history of our two major political parties leaves little basis for giving either one a preference over the other when their respective positions are judged by classic standards of monetary orthodoxy.

And so it is to be hoped that political people of good will in all parties, and they are numerous, will take no exception to nonpartisan comments on the important part political action has come to play in the sphere of industrial activity. Broadly speaking, the economic and monetary problems with which this country is confronted, insofar as they are conditioned by current political doctrine, or affected by contemporary political leadership, are treated about alike by each of the major parties. The plain fact of the matter is that that economic philosophy to which industry largely subscribes, and upon which this nation's industrial greatness was built, has today no important political advocate.

Solution in Political Action

This circumstance in itself might not be considered too important, but the consequences of the inflation in which this country is now involved extend far beyond the immediate special interests of industry, and the solution of those problems which inflation presents lies primarily in the field of political action. There is a twofold aspect to inflation, and the implications of inflation ramify and spread to almost everyone.

Inflation is detrimental to creditors, and a temporary boom to the debtors. The dollar which was loaned could buy more goods than the dollar which is paid back, and the purchasing power of interest paid meanwhile shrinks from year to year. Now creditors, in our age of life insurance, savings banks, bonds, and social security, comprise the great majority of the people: those who have exercised the industry to earn, and the thrift to save; those whose security depends on pensions; those who rely upon insurance to discharge their family obligations. These millions are the principal creditors under our capitalistic system. It is they who are the real victims of inflation.

But even more fateful to the stability of the social order are the results of inflation deriving from the fact that the rise in prices and wages which it causes occurs at different times and in different measure for various kinds of goods and labor. There is no evenness in the process of inflation, and though while inflation is under way some people enjoy the benefit of higher prices on the goods or the services they sell, such advantage is enjoyed only until the prices of the goods and services they buy inevitably overtake and then eventually surpass those upon which their ephemeral good fortune rested. Such fortuitous gains in the course of an inflation are short-lived. They give rise, however, to those social, economic and political implications that make inflation a matter of such transcendent importance.

Historically periods of long and severe inflation have given rise to widespread bitter resentment and discontent on the part of many people against the obvious injustice to which they have been subject. On occasions inflation has been the prime cause of revolutionary outbursts that have shaped the destinies of nations.

The stability of our institutions is not presently threatened but if there is one thing more than another that could eventually undermine the morale of even this country it would be the failure successfully to cope with the inflation in which we are now involved.

Webster correctly defines inflation as a "disproportionate and relatively sharp and sudden increase in the quantity of money or credit, or both, relative to the amount of exchange business." Inflation is a monetary and credit phenomenon, pure and simple. It has social implications. It has economic implications. It has political implications. But in and of itself inflation is a "disproportionate and relatively sharp and sudden increase in the quantity of money or credit, or both, relative to the amount of exchange business." And nothing else!

Inflation inevitably results in a general rise in the prices of all commodities and services, but the higher prices and higher wages are the result, not the cause, of inflation. As the NAM advertised, "Wet Streets do not Bring Rain!"

Extent of Inflation

That an inflation of massive proportions is under way is attested by the fact that the nation's supply of money and credit in 1933 was about $40 billion; in 1947 it was about four times that amount ($165.6 billion). The year 1933 is selected for comparison because in that year the redeemability in gold of United States money was officially abandoned.

The year 1933 was one of extreme depression. Since then the country experienced a measure of recovery, prepared for and fought World War II, accomplished a partial restoration of civilian economy, and now faces the challenge of undertaking another serious defense program. It might be interesting to look for a moment at the scoreboard.

While money was increasing 302% during this 1933-47 period, the so-called cost of living—the Consumers' Price Index — rose from 92.4 in '33 to 167.0 at the end of '47, an increase of 80%. The corresponding rise in the average manufacturing industrial hourly wage rate was from 44c to $1.28 per hour, or 191%. The wholesale commodity price index increased 148% from 65.9 to 163.2.

During this 15-year period the national income increased from $39.6 billion to $202.5 billion, an increase of 411%.

Corporations lost $400 million in 1933 and over $5 billion in the years 1931-33 inclusive. It was not until toward the end of 1936 that these losses were offset by profits subsequently earned. Corporation profits for 1947 were slightly over $18 billion, of which approximately $7 billion ($6.9 billion), about 38%, were declared as dividends. In 1933 corporations declared dividends in the amount of $2.1 billion. Corporation dividends in 1947, the amount paid to the millions who own American corporate enterprise, when compared to a 1933 base established during a period of tremendous operating losses incurred in great sections of the country's industrial establishments, increased only 224%. Meanwhile American industry paid slightly more than $122 billion in salaries and wages in 1947, against slightly less than $29 billion of such payments in 1933, an increase of 324%.

This welter of figures discloses great dislocations in the economic situation, but of them all, only the first, relating to the nation's money supply, is indicative of the inflaton that has taken place. The rest reflect to a greater or less extent some of inflation's economic consequences.

To designate these higher wages as "social gains for labor" or the higher cost of living as the result of the "greediness of selfish interests" is equally incorrect. They both reflect the increase in the quantity of money and credit which has taken place meanwhile. Although some people have been fortunate enough to have held their own, or even temporarily improved their lot, it has already been remarked it is at the expense of terrific hardship imposed on other worthy people whose incomes have not kept pace with the soaring prices brought on in inflation's wake. These dislocations if continued and intensified can end only in eventual disaster. It is most important that this situation be correctly understood as a necessary prelude to dealing with it.

Our definition, it will be recalled, refers to inflation in terms of "money or credit, or both." Money, in addition to serving as a mechanism for the exchange of economic goods and services, is a measure of value. Measurements, in their practical application to material affairs, are necessarily related to basic standards. Basic standards are essential in an orderly society to promote confidence and discourage fraud in the exchange of goods and services. The establishment and policing of basic standards is a proper and necessary function of government. By law governments closely define and minutely calibrate standards of space, weight and time. These standards have been meticulously determined, clearly established, and are scrupulously maintained.

The Standard of Value

The dollar is our standard of value, but in the establishment and maintenance of that standard we have not been very successful. In fairness it must be admitted that by comparison with other important nations of the world we have to date done rather better than most of them, but internally our economy is now being subjected to strains arising from the current inflationary movement and this is properly a reason for genuine concern on the part of all thoughtful people of good will.

It is immediately obvious that among the various standards government undertakes to establish, maintain and police, money, the standard of value, occupies a unique and peculiar place. Money is the medium upon which government itself subsists! And while in discussions of this sort we refer to government as an abstraction, as a matter of fact, in concrete reality, government is first, last and always a group of men, some elected and some appointed, and all more or less conditioned in their thoughts and actions by a background colored inevitably by political as well as by economic considerations.

This introduces a very practical factor into the situation. The greater the part of the national income that through taxation can be brought under government control, the greater the power of the men in government to promote their own continuity in office. This was true of kings and emperors of ancient and medieval times; and it is just as true of modern elected representatives of the people as it is of modern dictators. There is nothing inherently either good or bad in itself about this. It is simply a fact, and one that should be kept in mind when considering the mechanics of government.

Now throughout all history great differences of opinion have existed among men as to the proper scope and the legitimate fields of activity of government, and about the methods by which those in authority should be selected and continued in office. Views on these subjects are profoundly affected by wars or threats of wars, and the conditions arising therefrom. These differences of opinion exist today, and with terrific intensity. Mankind, with an incorruptible determination to achieve the dignity of individual freedom, has struggled for centuries with the problem of contriving a government powerful enough to protect him, without creating a force strong enough to enslave him.

Our own government was conceived in the revolutionary tradition, and that freedom of enterprise, that right of the individual to an opportunity to work out his own destiny under the protection of a government dedicated to jus-

(Continued on page 38)

*An adddress by Mr. Hutchinson before 53rd Annual Congress of American Industry, New York City, Dec. 3, 1948.

Mutual Funds

"Many a Mickle"

No business ever became really big by catering only to people in the upper income brackets. Similarly the mutual fund business will not reach its real potential until it does a more thorough job on the small investor, the man or woman whose income is under $5,000 a year.

In the December issue of the "Readers Digest," there is a very illuminating article titled, "How Is American Income Distributed?" According to this article, Americans with incomes of less than $5,000 a year today receive the following slices of our national income:

(1) 89.8% of all wages and salaries.
(2) 83.1% of all income from rents.
(3) 69.4% of all dividends and bond interest.

The article also points out that since 1917 the net income of the "economic royalists," people with gross incomes of $25,000 a year or more, has shrunk from 6.7% of national income to 1.3%—less than 1/5 of its ratio 31 years ago.

While it may be argued that the "economic royalists" are better able to save money for investment out of their incomes than the man with only $4,000 or $5,000 a year, this is not always true. The upper income "bracketeer" has been hit much harder by increasing income taxes than the little fellow and only through sharply lowering his living standard can the former begin to save as much today as he used to. On the other hand, there are millions of thrifty, modest-living Americans who are able to save several hundred dollars a year out of incomes under $5,000. This writer feels that it is to this latter group, a group that can well use the services offered by Mutual Funds, that the business should devote its efforts.

To paraphrase Lincoln, "The Lord must love the small investor; He made so many of them."

Income Bargains

"The way some Wall Streeters are reacting to the Truman election reminds us of nothing so much as small school boys who had been sure of getting rid of last year's teacher, only to find her in full charge when they entered the next grade. They are going through the same self-tortures and guilt, imagining all the most horrible ways in which Mr. Truman could 'get even' by hurting business.

"They seem to forget that the United States Government, whether Democratic or Republican, is vitally and directly concerned with the continuation of business prosperity. For the fiscal year ended June 30, 1948, total tax collections were $39.5 billion: $21 billion came from individual income taxes, $10.2 billion from corporate income and profits taxes, and the balance of $8.3 billion from excise, estate and gift, and miscellaneous taxes. Obviously, the government would not deliberately want or bring about any major deflation with mass unemployment. And Truman's policies seem to be headed in the opposite direction.

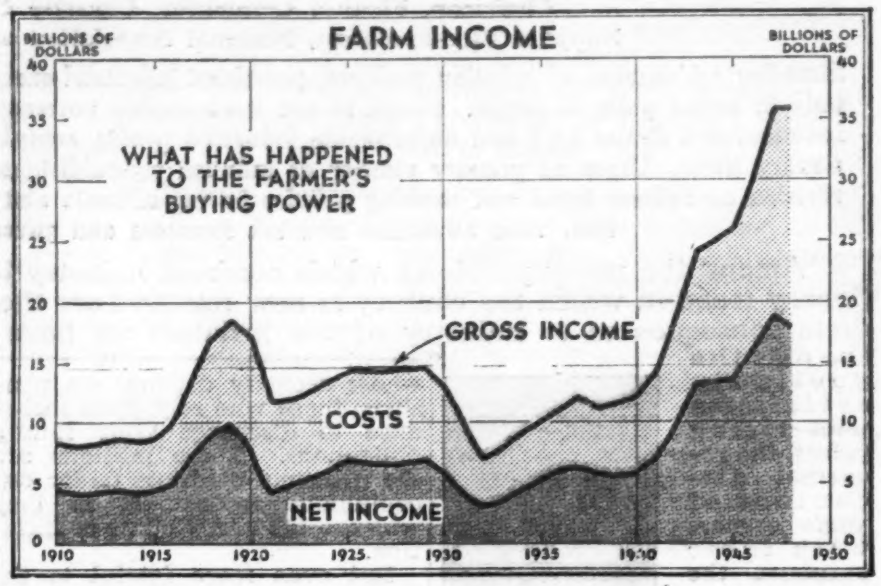
"Thus, we see no good reason to expect a marked change in business activity and even if higher corporation taxes cut into today's high level of earnings to some extent, we would not expect that to reverse the upward trend of dividend payments that began in 1943 and has continued up to the present. And it is well known that corporations have paid out a much smaller proportion of total earnings in dividends during this boom than during prior booms — approximately 40% vs 60-65%. Industrial earnings currently cover dividend payments by nearly two and one-half times. One likely development in new tax legislation will be emphasis on larger distribution of earnings in the form of cash dividends.

"Income-minded investors can find a wide range and plentiful bargain opportunities today. And we believe that in the absence of hope for big trading profits, more and more people will resign themselves to the necessity of being satisfied with excellent income. They will undoubtedly be much better off than those diehards who scorn income and stubbornly hold onto large sums of idle cash, waiting for a sufficiently good sign of increasing confidence to dash in and buy for capital appreciation. Those who buy for income will be in a position to derive profits too if the market does go up, and they will have had the good returns available today throughout the period."—Quoted from **Arthur Wiesenberger's** "Investment Company News."

The Farmer Prospers

"The decline in prices of most agricultural products during 1948 has misled investors into thinking that the earnings of companies selling to the farmer will suffer. Consequently the stocks of such companies can be bought much cheaper than is justified by the current situation and outlook. Actually, on any statistical basis, agricultural stocks are bargains at present levels because:

"(1) The farmer's net income—his buying power—is far above prewar levels and his increased volume of production should adequately compensate for price declines in the commodities he produces. He is assured, probably for years, possibly forever, of a higher proportion of national income than he ever before enjoyed —a bright prospect indeed for all companies supplying the farm market.



"(2) The cost of farm labor is up and will also stay high so that farm mechanization is more important, more economical, than ever before.

"(3) This combination of buying power and economic necessity means a huge, continuing market for labor-saving agricultural equipment.

"(4) The flow of steel, which was the real limiting factor in production of farm equipment in 1948, is likely to be at least as favorable in 1949 as steel production increases.

"Earnings of agricultural equipment makers were high in 1948 —averaging 21% on present prices for their stocks. The prospect is for greater production, continued high earnings in 1949."—From a folder prepared by **Distributors Group, Inc.**

Manhattan Bond Fund Reports

Earnings of $1,349,972 from bond interest income were reported by Manhattan Bond Fund, Inc. for its fiscal year ended Oct. 31, 1948. These earnings were all paid out as dividends to the 16,927 shareholders in this mutual investment company, which is limited in its investments to bonds. The Fund also reported $380,545 of net profits on security transactions, likewise distributed to shareholders.

Assets at the 1948 year-end were $28,952,838, an increase of $2,446,389 during the year, and an all time year-end high. From Oct. 31, 1947 to Oct. 31, 1948, net assets per share increased from $7.30 to $7.35. Eight bond issues were eliminated or called for redemption, and seven new holdings added to the portfolio.

Commenting on the investment outlook, Hugh W. Long, President of Manhatan Bond Fund, states that while there is a prospect of continued good general business, it is probable that the earnings of corporations will be somewhat lower in 1949 than in 1948. "Corporate taxes are likely to be increased," he states, "to provide revenues for an enlarged Federal budget."

"Fortunately for the investor in bonds," Mr. Long adds, "bond interest is deducted from corporate earnings before Federal taxes, so that the ability of corporations to meet interest on debt will not be impaired by a higher corporate tax rate."

Assets of Affiliated Double in One Year

Affiliated Fund, Inc. a Lord, Abbett investing company, in its report for the fiscal year ended Oct. 31, 1948 shows that investable assets, net assets, and shares of capital stock outstanding were double the amounts reported a year ago.

Net income for the year aggregated $2,402,770, against $1,010,851 a year earlier. Investable assets of $78,884,211 on Oct. 31 of this year compare with $39,140,071 at the end of October last year. Net assets were $60,884,211 on Oct. 31, 1948, versus $30,140,071 at the end of the 1947 fiscal year. There were 14,869,721 shares of capital stock outstanding, against 7,510,640 shares, and the number of shareholders rose to 33,422 from 19,491. Net asset value per share was $4.09 at the end of the latest period, as compared with a net asset value of $4.01 per share at Oct. 31, 1947.

H. I. Prankard, 2nd, President in a letter to stockholders said: "With minor exceptions, we are continuing to confine our investments to securities of companies which, in our judgment, are in an excellent financial condition. Such companies are in a position to participate fully in the large volume of business which is now being done and, at the same time, they are able to pay fair dividends to their stockholders. Rising costs and resultant higher-valued inventories are not proving to be a deterrent to expansion for such companies, and even in today's markets they are able to raise additional capital when it is to their advantage to do so."

Herbert McHenry With Shields Co. on Coast

LOS ANGELES, CALIF.— Shields & Co. announce that Herbert T. McHenry has become associated with the firm's Los Angeles office, 210 West 7th Street, in charge of the institutional investment department and will cover the entire west coast. This is a position which Mr. McHenry formerly occupied with Salomon Bros. & Hutzler.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA. — Bernard C. Baum is now with Bache & Co., 2809 Collins Avenue.

Mundo, Whiting, et al., Join Lyman Phillips

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—E. W. Mundo, Wayne O. Whiting, Charles E. Connor, Herbert L. Dorrance and Arthur H. Sanborn have become associated with Lyman W. Phillips & Co., 201 Devonshire Street. All were formerly associated with Carver & Co. of which Mr. Mundo and Mr. Whiting were officers.

With W. E. Bell & Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — Laura L. Graybill is with W. E. Bell & Co., Federal Securities Bldg.

The Federal Budget Outlook and Federal-State Fiscal Coordination

By JAMES E. WEBB*

Director of the Bureau of the Budget

Pointing out mounting Federal fiscal requirements on all sides which will make Federal budget in 1950 greater than 1949, Budget Director foresees both Federal Government and many states facing deficits. Outlines policy of Federal grants-in-aid to the sta es and calls for separation of Federal and state tax sources, and greater degree of fiscal coordi iation of states with Federal Government.

I appreciate very much this opportunity to discuss fiscal problems with your assembly. Meetings such as this dramatize the fa;t that our American system of government consists of "multiple governments for a sin;le nation." In our Federal, state, and local governments, we are all engaged in a common enterprise of providing services. The finances of all our governmental units are closely interrelated. We need to give common thought — a great deal of thought — to the real meaning of those relationships. Such conferences as this afford a fine opportunity for the exchange of ideas.

James E. Webb

Over the years governmental leaders have discussed methods of achieving fiscal coordination between the states and the Federal Government — especially tax coordination. Yet today the problem still outruns the solution. In part, of course, today's great need stems from the rapid tempo of governmental change in recent years, the new responsibilities which government must carry. But in part also, I believe, it stems from the fact that our efforts to achieve coordination have had no firm foundation of clearly understood purposes and objectives. As we attempt to correlate Federal, state, and local government finances, what values should we seek to protect? What purposes should we serve? Thorough study and discussion of fundamentals is essential if we are to choose wisely among alternative methods for dealing with the complex problems involved.

For a moment, I should like to review quickly the current major problems of Federal-state-local fiscal relations, and then discuss in some detail the role and significance of Federal grants-in-aid to the states.

Federal Budgetary Outlook

First, however, I think you may be interested in a brief reference to the Federal budetary outlook. This may be of some help as background for your discussions of fiscal coordination.

Sixty years ago, the total of state and local government expenditures was $560 million, while the Federal Government spent little more than half as much, $318 milliop. For the fiscal year 1949, Federal Government expenditures are estimated at $42 billion — nearly three times the total estimated for all state and local governments.

That reversal of relationships summarizes a great deal of history — a history dominated by three wars and a severe depression. These three wars involved increasingly greater national exertions and each one added to our governmental obligations. Expenditures in this year's Budget for war-related items and our efforts to achieve national security and peace take 81 cents out of every Federal dollar spent. The depression was accompanied by widespread human suffering, which the Federal and state governments were called upon to alleviate and, in future, take steps to avoid. Social and economic programs now bulk large in the state budgets as well as the Federal Budget.

In the Federal Budget, as in the state budgets, many important programs have a heavy expenditure impact year after year. There is a very limited range of discretion which can be exercised by either the President or the Congress as to the total size of the Federal Budget in any one year. The hard and inescapable fact is th:t our Federal Budget is large and is most difficult to reduce because our commitments are large.

Estimated Federal expenditures this year for national defense are $12.1 billion. That is 29% of the Budget total. Expenditures for international programs, including the European Recovery Program amount to $7 billion, or 17%. Interest on the public debt takes $5.3 billion, and tax refunds, $2.[illegible] billion — together 19% of the Budget. Veterans' services and benefits require another $6.8 billion, or 16%.

These five programs account for $34 billion, or 81% of the total Federal Budget for the fiscal year 1949. All remaining activities and programs are estimated to cost $8.2 billion. This $8.2 billion includes nearly $2 billion in grants to states. It includes the atomic energy program, the postal deficit, the farm program, the housing program and many others.

When we look ahead to fiscal year 1950, we find mounting requirements on almost every side. Although tax refunds and expenditures for veterans' programs will be reduced, increased expenditures are almost certain for national defense, the European Recovery Program, interest on the public debt, and other programs. The President has taken firm and repeated action to hold the 1950 Budget to a minimum, but even so the outlook for the Federal Budget in fiscal year 1950 is for some increase over 1949. This means that under present tax laws we face the possibility of a deficit at a time when a surplus is needed to help curb inflationary pressures, reduce the public debt, and provide some reserve against the unpredictable hazards of a world not yet at peace.

Federal Grants to States

Federal grants to state and local governments constitute one of the segments of the Federal Budget in which there is little possibility of adjustment in any one fiscal year. Of the $42 billion for fiscal year 1949, $1.9 billion, or nearly 5%, is for these grants-in-aid. From the point of view of Federal budgeting, nearly all of this is a fixed commitment. Almost $1 billion is required to match state expenditures for public assistance. More than $400 million of the Federal grants is for highways. $130 million is for the administration of the unemployment compensation system and public employment offices, and $75 million is for school lunches.

These four programs represent more than four-fifths of all Federal expenditures for grants of states. The other one-fifth is spread among some 30 different grant programs. Commitment previously made will require larger expenditures for several of these programs in fiscal year 1950. This is true, for example, of public assistance and of airport and hospital construction — programs for which the Congress has previously, by law, assured the states that they may make their commitments with a firm expectation of Federal financial aid.

With this background on the Federal Budget, let us turn to the general subject of Federal-state-local fiscal relations.

In considering these relations we need to talk in terms of government at all levels as a composite instrumentality for doing those things which the Nation and the community require. At the same time, we must recognize that the genius of our Federal-state system is the fact that it permits us to work toward broad, fundamental national goals of public service without submerging or overriding the more specific goals of particular states, local communities, or individuals. Here in America our pattern of governmental organization allows scope for innovation, experimentation, and local differences in emphasis upon particular services.

Fiscal Coordination

In Federal-state fiscal affairs, four major problems call for joint consideration. I shall identify them briefly, but discuss only one.

The first problem is how to make sure that the fiscal politics of the Federal Government and the state and local governments do not offset each other but, where possible, reinforce one another. Apparently the key to the solution of this problem is agreement upon objectives. Given that agreement, a willingness to work out the methods follows without too much difficulty.

The second major problem is how to manage the concentration of Federal activities and property in certain areas so that disproportionate burdens on particular communities will be avoided. This is another subject requiring agreement on objectives and methods.

The third fiscal problem involves the question of reducing or eliminating tax competition and conflicts between the states and the Federal Government. Much of the discussion and study, which has extended over many years, has been in terms of how to shift revenues from one level of government to another — what the Federal Government might give up to the states, and vice versa.

Perhaps too little attention has been given to this subject from the point of view of the taxpayer. From his point of view, the central question would be, "How can government minimize the burdens of accounting, reporting, and litigation, as well as the actual taxes, which the taxpayer must bear?"

The taxpayer might also ask: "How can government minimize the effects of interstate differences in tax rates upon the competitive position of business enterprises?" Such questions might make a difference in the practical conclusions on tax coordination. For example, a study of taxpayers' costs might support the use of a few interrelated taxes in preference to a diversity of separate tax sources. Whatever the findings, however, it is clear that the problem requires a comprehensive approach.

The fourth major fiscal problem is how to reduce the inequalities which are bound to occur between the needs of the people of a state for governmental services, on the one hand, and the ability of that state to finance those services on the other. Some states can support a high standard of public services with a low tax rate; others have to skimp on services despite high tax rates. Such differences are substantial — not merely among the states, but also among local units within the states.

States have met this problem to a considerable extent by assuming full responsibility for some functions which might otherwise be administered and financed by local governments. To an even greater extent, however, states have met this problem by turning over some of their tax collections to local governments, either by giving them a specific share of the yield of designated taxes or by furnishing grants-in-aid to help finance specified services.

The four fiscal problems I have listed are closely interrelated. For example, any measures to reduce tax overlapping should take account of inequalities among the states in the ratio of taxable resources to the needs for governmental services. The range of these disparities might actually increase if distinct and separate revenue sources were reserved to the states and to the Federal Government. In other words, Federal Government withdrawal from selected taxes would benefit some states more than it would others — some a great deal more — and the benefits might bear no relationship to the needs.

Coordination of taxes through credits and deductions—such as the deduction of state income taxes and local property taxes from the base for the Federal income tax—also has a bearing on interstate inequalities. The effect of tax credits is to divert revenue from the Federal Treasury to state and local treasuries—without reflection in the Federal Budget. The result is a reduction in the competitive effect of interstate differences in tax rates which serves as a unifying influence upon the tax system of the Nation. From the point of view of the taxpayer, tax credits may be preferable to a complete segregation of the tax sources for each level of government. However, tax credits cannot eliminate interstate inequalities in taxable resources. As long as substantial inequalities remain, there will be pressure for the Federal Government either to take full responsibility for additional public services or to make grants to the states.

Of these alternatives, the grant has the merit of being a partnership device. When properly employed, it stands midway between direct Federal operation with complete Federal financing, at one extreme, and complete state (or state and local) financing and operation, at the other. As a cooperative device, the grant helps to preserve the vitality of our Federal-state system of government.

An Instrument of State and National Policy

The Federal grant is an instrument of both state and national policy.

As an instrument of national policy, it makes it possible: (1) to support throughout the Nation

(Continued on page 39)

*An address by Director Webb before the Ninth Biennial General Assembly of the States, Detroit Mich., Dec. 2, 1948.

We Need Overall Policy Of Greater Productivity

By DR. JULIUS HIRSCH*

Dr. Hirsch declares we should cease statistical bickering about measuring productivity and instead follow private and public policy of increasing output per labor and machine hour. Calls for appointment of Federal "Productivity Expediter."

The great advantage of the U. S. economy and our economic superiority over all other countries is based on greater productivity of our work, measured by the performance in an average labor hour (of man and machine). During the last two generations the average output in our whole economy, if measured in units, increased by almost 2% every year. This means that our standard of living rose 100% in each generation, i.e., every 30 years.

Julius Hirsch

This happened so that in a part of our nation's work productivity increased very little, if any, as e.g., in government work and in most of distribution. In other parts it increased by leaps and bounds, as in electricity, chemistry, mining and in modern agriculture. Before the war our manufacturing industries were the pride of progress in productivity. The normal progress was 3% a year and in many of them much more.

A double enigma arises after the war: More than ever we need a higher output per labor hour of machine and man, because *this is the only way which can make wage and profit increases possible without price increases. However, nobody seems to know exactly whether our productivity increases at all.*

We are now spending 10% of our gross national product (12 to 13 out of every 100 dollars of our national income) for defense and foreign aid. For this we pay wages and dividends—but we don't produce commodities for these dollars. From this originates a new kind of "inflationary gap" of about 10% of our gross national production. To close this gap by more production, Mr. Bernard M. Baruch proposed early in 1947 that we prolong the working hours in the week by 10%. Nobody else risked to make a proposal for that in Congress or in any responsible place.

We can, however, obtain the same, or more, *if we increase our national productivity in the labor and machine hour.* Calculation based on our "gross national product" proves that the average of our production per man and machine hour has been advancing at a rate of about 3% since 1946. Therefore the practical action in this most decisive field of economic development should be this:

We should put an end to statistical bickering about "methods" of measuring productivity and *instead, start a private and public policy of increasing output per labor and machine hour* so as to over-compensate for the "inflationary defense gap" by sharply increased production.

Discussions about how to measure productivity have availed little. Many people, when talking about "*labor* productivity," think only about "*laborer's* productivity." Our enormous performance in the past, however, was that of more and much better machinery, organization and engineering skill.

The discussions between the various agencies about the problem of whether there has been an improvement of productivity at all since the war began yield strange contradictions. One department estimates that in our agriculture, the volume of output per employed person from 1939 to 1946 rose by about 46%, another says this was only by 25.2%. The estimates of the industrialists who reported to the Conference Board some months ago show higher figures of increased productivity than those which are reported officially up to now.

The following facts, however, should be sufficient to prove that this nation gets more out of an hour of man and machine today than before the war:

Measured in the purchasing power of 1939, our gross national product for the first half of 1948 had increased by almost 60%, according to Mr. Leon Keyserling, Vice-Chairman of the President's Council of Economic Advisers. Since that time that figure has increased by perhaps 2% more. We employ one-third people more than in 1939 at approximately the same labor hours. If there would have been no increase of efficiency, the production would have been one-third more. It is almost double. In the average of the nine years we must have achieved an improvement of more than 3% per year in the average.

As our wage and profit increases seem to claim more than 3% a year additionally, *we must have a greater increase in productivity.*

All kinds of incentives should be tried for progressive labor and management, including public acknowledgment of good achievements, to push productivity forward and to get higher and higher performance out of the labor hour of man, machine and management.

To remove the handicaps in observing real performances, and quite especially to promote all means of greater productivity, one of our elder statesmen with greatest economic reputation should be appointed the *Nation's Productivity Expediter.*

*Excerpts from an address by Dr. Hirsch at New School for Social Research, New York City, Dec. 6, 1948.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

John E. Bierwirth, President, **The New York Trust Company,** at 100 Broadway, New York, announced on Dec. 6 the following promotions and appointments: Stockton Green, Assistant Secretary and Alfred S. Olmstead, Jr., Assistant Treasurer were promoted to Assistant Vice-Presidents; Raymond F. Adams and John F. Garde, Jr. were appointed Assistant Treasurers; Charles C. Hawley was appointed Assistant Secretary.

In view of the disturbed conditions and curtailment of business in North China, the Tientsin Branch of **The National City Bank of New York** suspended operations at the close of business on Dec. 4. Accounts remaining on the branch books on that date are being transferred to the National City's Shanghai Branch, an announcement from the bank stated.

* * *

The New York agency at 67 Wall Street of **The Standard Bank of South Africa Ltd.** announced on Dec. 3 the receipt of the following advices from the bank's head office in London:

"Ralph Gibson has been appointed a director of this bank. Mr. Gibson, who at one time was the bank's agent in New York, retired recently from his position of Head Office, London, Manager which he had occupied since 1936. Charles Reginald Hill has been appointed to succeed Mr. Gibson as London Manager."

* * *

In order to improve its service to importers, exporters, and others engaged in international trade, County State Bank, Corvallis, will **York** has instituted the "geographical desk" system in its International Division, it is announced by Arthur S. Kleeman, President. Under the new system, says the announcement, the map of the world has been divided into a number of geographical areas, each of which is considered as a trade and economic unit. An experienced member of the International Division staff has been placed in charge of the "desk" for each unit, with the responsibility of maintaining up-to-date files of economic and trade information on that are. "Institution of the 'geographical desk' system," Mr. Kleeman said, "is another step in Colonial's program of intimate banking for international trade." The "geographical desk" program will be directed by Harold R. Stein, Assistant Manager, of the International Division, under the general supervision of Mario Diez, Vice-President in charge of the International Division.

* * *

Albert R. Plant, Chairman of the board of the **Providence National Bank of Providence, R. I.,** was recently honored by officers of the banking institutions of the State on the completion by him of 60 years in the banking profession. The Providence "Journal" in reporting the honors accorded Mr. Plant on Nov. 15 said in part:

"Recognition of his long active service featured the second annual officers' dinner of the Rhode Island Bankers Association at the Sheraton-Biltmore Hotel, attended by 260 officers of banks throughout the state. The regard with which the honored guest is held by the banking fraternity was expressed in a scroll presented to him on behalf of the group by Henry L. Wilcox, President of the National Bank of Commerce and Trust Co., himself a 58-year member of the R. I. banking profession."

Further recognition of the anniversary, said the "Journal," took place on Nov. 16 at the Providence National Bank where a reception was held. Mr. Plant's many friends were invited. That was followed by a dinner at the Hope Club, attended by the 35 officers and directors of Providence National Bank.

* * *

Aside from his duties at the bank, Mr. Plant has participated in many business and civil activities. According to the "Journal" he was identified with the American Institute of Banking in its early years and has served as President of the R. I. Bankers Association, the Corporate Fiduciaries Association of Rhode Island, the Providence Chamber of Commerce, and the Providence Clearing House Association, etc.

* * *

The Amwell National Bank of Lambertville, N. J., capital (common) $150,000, was placed in voluntary liquidation, effective Nov. 16, having been absorbed by the **Hunterdon County National Bank of Flemington, N. J.**

* * *

William B. M. Rawstorne, Assistant Secretary of the **Mellon National Bank & Trust Co. of Pittsburgh,** died suddenly on Nov. 29. He was 40 years of age. Following his graduation from Brown University in 1929, Mr. Rawstorne, said the Pittsburgh "Post-Gazette," became associated with the Union Trust Co., and in 1946 he was appointed Assistant Secretary of the bank.

* * *

The directors and officers of the **First National Bank and Trust Company of Bethlehem, Pa.,** announce the death on Nov. 21 of their Executive Vice-President Raymond R. Strausburg.

Effective Dec. 1 **The Central Trust Company of Charleston, W. Va.,** merged with the **Kanawha Valley Bank** of that city. The announcement states that all business formerly carried on by the trust company will be continued as a separate department under the name of the Kanawha Valley Bank. The latter, in operation since 1867, is the oldest financial institution in Charleston. It has a capital of $1,500,000 and surplus of $2,500,000. Plans for the merger were referred to in our Nov. 4 issue, page 1873.

* * *

As of Dec. 1 the **Bankers Trust Company of Detroit** and the **Equitable Trust Company** of that city announced the consolidation of the two organizations into the **Bankers-Equitable Trust Company.** Reporting the proposed union of the two companies in its issue of Nov. 30, the Detroit "Free Press" said:

"The new firm will continue administration of the trusts handled by each of the companies and virtually all officers and employees of the two companies will be carried over under the consolidation."

Otto G. Wisner, who was President of the Bankers Trust Company, is Chairman of the board of the consolidated institution, of which Oliver D. Marcks is President; Mr. Marcks had been President of the Equitable Trust. An item bearing on the plans for the consolidation appeared in our issue of Sept. 30, page 1329.

* * *

The American National Bank & Trust Co. of Eau Claire, Wis., has increased its capital from $175,000 to $250,000. Part of the increase was brought about by a stock dividend of $50,000, while the fur-

(Continued on page 29)

LETTER TO THE EDITOR:

Takes Issue with Smola on Gold Standard

Philip McKenna writes "Chronicle" restoration of gold standard is not merely a moral issue, but one that affects economic freedom and individual responsibility. Warns managed and politically controlled currency will cause us to drift the way of England.

Editor, The Commercial and Financial Chronicle:

An article entitled "The Gold Controversy" by Ferdinand G. Smola appears in the "Commercial & Financial Chronicle" of Nov. 18, 1948, which because it decries the importance of gold as a standard of value and sees no moral purpose in the gold standard requires our consideration.

Philip M. McKenna

In the same issue of the "Chronicle" is a much longer article by Professor Roy Garis entitled "Fort Knox Gold Not Worthless," which shows the result of much study, with citations of 22 references, in which the author agrees with Professor Spahr that today we do not have a "gold standard currency" but instead we have "a highly restricted international gold bullion standard and a domestic currency that is irredeemable insofar as gold is concerned." But as Prof. Garis' article and references are overwhelmingly in favor of the gold coin standard of money and expose the dangers in continuing the present experiment with irredeemable paper money I shall not discuss it, rather turning to examine the point of view expressed by Mr. Smola which criticizes those "who clamor for free gold coinage," if indeed the measured words of the 76 distinguished economists of the Economists National Committee On Monetary Policy headed by Dr. Spahr, and the statesmanlike speeches of Congressman Howard Buffett and the solemn utterances of deep thinking men of great experience in business may be dismissed as "clamor" by Mr. Smola.

Mr. Smola takes the position that the gold standard involves no moral issue. It seems to me that it lies at the basis of our American theory that the individual is the source of all proper power and responsibility. Does Mr. Smola think that the breaking of contracts and solemn agreements, as occurred when the unambiguous and clear promise to redeem our gold notes and bonds in gold coin of "the present standard of weight and fineness" was repudiated in 1934 is not a moral issue as well as an economic one? If the breaking of promises is condoned in one instance may it not be reasonable to expect it may be broken in more and more instances until finally mankind is deprived of the great economic advantages accruing from the ability to trust one another? Mr. Smola says, "As far back as history records the story of gold is not a pretty one . . . gold has been the reason for much strife and bloodshed." If Mr. Smola regards the history of irredeemable paper money as a prettier one, does he prefer the times of the assignat inflation in France from 1790 to 1796 where political theorists had the management of paper money and also of those corollaries, price fixing and wage control in the Law Of The Maximum? Or does he prefer Dr. Schacht's managed currencies of various kinds under the 3d Reich? Does he think the widow poring over a form letter in 1939, asking her to put her small savings into bonds to be repaid in 1949 is a pretty picture when she is 10 years older and finds her meagre principal buys only one third as much? Is it a prettier picture to see grasping, shrewd men speculating by borrowing to acquire real assets with the assurance that repayment will be made by them in currency worth a third as much? Is it a prettier picture to see men toil, relying upon small savings, insurance or pensions which any economist would have told them were bound to deteriorate if not to be repaid in gold redeemable money?

But to return to the more serious part of Mr. Smola's article where he says "From the smallest to the largest industry, wealth is not represented by the material goods, but by the kinetic function which guarantees a general high living standard to great masses of people." He refers later to the Ford fortune and doubtless has in mind the thousands of industries founded chiefly during the 100 or more years prior to 1934 when the gold standard was in effect in the U. S. A. so that money was safely advanced and earnings retained by the successful enterprise with the result that better plant and tools were made available.

I do not know exactly what is meant by "the kinetic function," being myself only a physical chemist, metallurgist and a Fellow Of The American Association For Advancement of Science and not accustomed to throwing such terms around loosely. If Mr. Smola means that the observed fact is that people will strive mightily when given a chance by being paid in real money I agree with him! The "kinetic function" seemed to come to life somewhat in Germany recently in the area where American authorities established a currency upon which somewhat more dependence could be placed by workers. How much more would the world come to life again, economically and financially, when that soundest of all currency, gold redeemable money becomes available to everyone who works for it? If we want to restore and preserve that energy characteristic of American industry during the period of more than a century when the gold standard prevailed let's restore gold redeemable currency to the citizens of the U. S. A. again before we lose our habits of working hard and of being thrifty. Or is the value in the kinetic function so poorly regarded that stock market prices go down to yield as high as 10% on current dividend rates and the shares sell in many instances for so little as 3½ times annual earnings because so few people, in view of the present prospects for managed currency and its concomitant control of industry and commerce, prefer to spend their money in other ways than buying these shares for hope of future gain in irredeemable but taxable paper money?

That Mr. Smola and many taking the same position do not take alarm promptly when principles are violated and there is a threat to the measure of value is natural. It is explained in an article entitled "Personality Under Social Catastrophe" being a report of 90 life histories of the Nazi Revolution in Chapter 25 by G. W. Allport, J. S. Bruner and E. M. Jandorf in "Personality In Nature, Society and Culture," edited by Clyde Kluckhorn and Henry A. Murray (Alfred A. Knopf Inc.) (1948, $4.50). In it the date of recognizing the threat of National Socialism to their own lives was quite delayed. Of the 48 German cases for which the information was recorded 29% first showed their recognition of the threat in 1933 when the revolution was already upon them. An additional 15% of the cases did not recognize the threat until 1935 or after. Of the 12 Austrian cases reporting 7 did not recognize the threat until 1938. A German visiting Vienna in 1937 records his impressions as follows: "People were living there in oblivion and quite unconcerned. They ridiculed anyone who even suggested similarities between German and Austrian developments." One subject writes: "This sort of attitude found its extreme expression in one of my relatives who reacted to all new decrees, irrespective of their content, stoically with the same sentence, which was designed to calm him and others: 'They'll make exceptions, yes, they'll make exceptions'." Again a Jewish woman quotes her husband's reaction to her fears for their safety, 'You're a child.' said he, as he made himself comfortable in his luxurious bed, 'You mustn't take everything so seriously. Hitler used the Jews very skillfully as propaganda to gain power. Now that his goal has been achieved you'll hear nothing more about the Jews'." Other subjects of this analysis are:

"(1) Interval of time between recognition of danger and first thought of emigration. Sixty-three percent waited for two or more years after Hitler's successful conquest before considering emigration as an adjustment to the situation.

"(2) Intensity of shock required to bring about realization of catastrophe. Sixty-five percent did not admit defeat until 1934 or after and 39% did not give up psychologically until 1938 or 1939."

With all of us becoming cognizant of the dangers, inherent in irredeemable money, to our way of life, at one stage or another, there is a point at which we become alarmed and another point at which we will do something effective about it. Many of us, including myself as well as Dr. Smola, would like to rationalize our way out of reality by fine sounding phrases and lull ourselves into a happier state by recourse to sophistry. Voltaire was one of those who in 1769 writing on "money" expressed the thought that perhaps no mismanagement of it could run a country, inasmuch as France had suffered for 60 years at the hands of monetary quacks and perhaps so long as fields were fertile and production went on it didn't matter very much what economic heresies were perpetrated by the Bourbons and their harassed heads of the Treasuries. It was fashionable to entertain forward looking theorists in the salons of the upper class in the 20 years preceding the French Revolution. The violence resulting from the use of false theories particularly of money and economics was tragic. Mr. Smola uses chemical terms in the explanation of his views and it might be interesting to him to note that Lavoisier, the co-discoverer of oxygen, was in the Assembly and spoke against the issues of assignats, saying that the price of shoes would be tripled and even six times as high if the present policy was continued. Dupont spoke against the assignat inflation. Lavoisier was be-headed, surely a loss to France, and Dupont escaped to Delaware where his son afterwards started a powder works. No, we invite Mr. Smola to cease rationalizing and to recognize that the "kinetic value" of which he speaks depends upon economic freedom and responsibility and that the main requirement for these is a gold coin standard of money under constitutional government. Whether Americans will dirft the way of England before we wake up to the danger of politically controlled irredeemable currency and managed money to the very lives of each of us depends upon our intelligence and information.

Incidentally, as to the value of that element No. 79 in the periodic table which is not fissionable and seems uninteresting to Mr. Smola, the world does not share his opinion that it is unimportant. I have noted that in many chemical operations, especially in the handling of fluorides, it is uniquely good. Its chief interest, as a standard of value, is well founded. But if it is so inert and harmless, why are American citizens prohibited from owning it?

PHILIP McKENNA,
President.

Nov. 20, 1948
Kennametal, Inc.
Latrobe, Pa.

Nathaniel Greene With First Guardian Secs.

The First Guardian Securities Corporation, 20 Pine Street, New York City, announces that

Nathaniel S. Greene

Nathaniel S. Greene is now associated with the firm. Mr. Greene was previously with Auerbach, Pollak & Richardson as manager of the unlisted trading department and prior thereto was with Simons, Linburn & Co.

Seeley & Lindley to Admit

Seeley & Lindley, 61 Broadway, New York City, members of the New York Stock Exchange, will admit Roderic G. Collins to partnership on Dec. 10, on which date Daniel Allen Lindley, general partner, will become a limited partner in the firm. Mr. Collins, a member of the Exchange, has been active as an individual floor broker.

Salomon Bros. & Hutzler

BOSTON, MASS. — Ralph A. Curran, manager of the local office of Salomon Bros. & Hutzler, 75 Federal Street, will be admitted to partnership in the firm on Jan. 1.

Securities Salesman's Corner

By JOHN DUTTON

The other evening I picked up a little book that was published in 1946 by the Reader's Digest Association entitled "Getting the Most Out of Life." It is a collection of inspirational ideas that I have found continuously helpful and enjoyable after many readings. One of the articles entitled "How to Live On Twenty-Four Hours a Day" was written by the prolific Arnold Bennett. I wish I had the space here to requote the whole article—there is enough material in it for fifty Securities Salesman's Corners.

Listen to this. "People Say: 'One can't help one's thoughts.' But one can. The control of the thinking machine is perfectly possible. And since nothing ever happens to us outside our own brain, the supreme importance of being able to control what goes on in that mysterious sphere is patent. For without the power to concentrate—that is to say, without the power to dictate to the brain its task and to insure obedience—true life is impossible. Mind control is the first element of a full existence."

"By the regular practice of concentration (as to which there is no secret save perseverance) you can tyrannize over your mind every hour of the day, and in no matter what place." Now you are saying to yourself: "This fellow has begun to interest me. But what he says about thinking is not for me. It may be well enough for some folks but it isn't in my line."

And he goes on. . . . "It IS for you, I passionately repeat. Indeed you are the very man I am aiming at. Throw away the suggestion and you throw away the most precious suggestion that was ever offered to you. Try it. Get your mind in hand. And see how the process cures half the evils of life—especially worry, that miserable, avoidable, shameful disease—worry!"

Then he tells how to learn to concentrate—that it isn't easy. That like all things you have to crawl before you walk. Just try putting your mind on a simple problem, or the development of an idea, and see how many times you have to jerk your wandering thoughts back on the track. But let us see for a moment how we could apply this formula for LIVING to our own daily work. How about the days when we pull ourselves out of bed with an effort, and we go to our offices with a sense of futility and expected boredom, and we leave early with a sign of relief, only to return home with another sixteen-hour stretch ahead of us when we won't have to think about selling securities (or much else either for that matter)? How about the days of declining markets, of pessimism around us, of unfavorable political developments, of attacks upon capital, and all the rest with which our business has been plagued for such a long time? It is often the case, is it not?

We hear the unfavorable, we talk about it, we wallow in pessimism and we do a ten-percent job. We go through such days on a hard pull—instead of LIVING. But if we could pack eight hours of creative living and thinking into those hours we spend making a living we wouldn't be tired at the end of the day, and we wouldn't be wasting these precious hours—we would be enjoying them. What if we looked at this business of selling securities as a CHALLENGE to our ingenuity and our creative ability? What if we planned every day and every move? What if we believed that our business was one of the most constructive and beneficial fields of endeavor in which a man could be engaged? What if every person who needed income; every lawyer, doctor, housewife, business man, or worker, who needed sound investment advice and help; every one who wanted to get somewhere financially in this world, all could be visualized as our GREAT MARKET? A market not to be exploited but to be helped. How about the false propaganda against Wall Street; how about the people who don't know about the importance of the great job we have to do in order that our country can grow and prosper—that it is our project to gather the RISK CAPITAL to provide the tools and the jobs and to clarify these misunderstandings—what if we could approach each day with the realization that we are part of a great business? Don't you think it would help? Could you be bored?

Maybe after reading Arnold Bennett, I have become a little lyrical. But what I mean is this. Take a day—a new day. Think about the opportunities instead of the failures. Set it up for a change as one day when you are going to do your best. Make your appointments. Think out your plans. There are securities that are worth while—that are big things to talk about—where you can help the other fellow. How about putting in EIGHT FULL HOURS TOMORROW? Hours with concentration behind them. When you talk, know what you are talking about. Think it out first. What a day that could be. Do you think we could have poor business if we put in five such days a week?

I am going to try it out myself—TOMORROW.

The Campaign is Over, Sir!

"If the steel men feel that they can't raise the capital to build new steel plants, then we should help them out by authorizing the Reconstruction Finance Corporation to loan them the money. If the steel men then should reject these loans because of their basic opposition to expansion, then the Government itself must build the steel plants as it did during the war.

"Steel production this year is about 10,000,000 tons short of actual demand, and there is little reason to hope that the situation will be any better next year or the year after. Today the Eastern steel barons are opposed, as they have always been, to any substantial enlargement of our capacity to make steel. These men of little faith are in constant dread of a depression which might leave them with 'too much' steel.

"They have, it is true, at last recognized the public interest in the shortage and are now advertising that the steel industry is expanding. This expansion, however, totals only 3,000,000 tons over a three-year period, as against our 10,000,000 tons shortage each year."

* * *

"Any program for stockpiling and maintaining full employment is going to require somewhat more effective allocations of material which will direct them into the right channels to insure future adequacy of production. Who does the allocating is a very pertinent question. We in the West especially have need for impartial umpires. My experience would not lead me choose as umpires the Eastern steel men who can use a voluntary allocation program to continue to impede Western development."—C. Girard Davidson, Assistant Secretary of the Interior.

It seems to us that Mr. Davidson needs to be reminded that the election campaign is over, and that in any event "we in the West" is hardly an appropriate phrase for an official who presumably represents the entire country.

Republic of Chile Offers Debt Adjustment Plan to Holders of Outstanding Dollar Bonds

A formal offer by the Republic of Chile of a debt adjustment plan under which currently outstanding Chilian dollar bonds would be exchanged for new bonds was announced on Dec. 6 by Jorge Alessandri, Minister of Finance of Chile. On Dec. 31, last, $131,262,000 principal amount of dollar bonds was outstanding. The plan provides for the exchange of dollar bonds for an equal principal amount of new bonds to be dated Jan. 1, 1948 and to mature Dec. 31, 1993. Interest on the new bonds, which will be direct obligations of the Republic of Chile, will be paid at the annual rate of 1½% for the year 1948; 2% for 1949 and 1950; 2½% for 1951, 1952 and 1953, and 3% for 1954 and subsequent years. The offer, Minister Allesandri said, follows negotiations by the Republic of Chile with the Foreign Bondholders Protective Council, Inc. which recommended acceptance of the proposal. The new plan "provides material improvements, including a service on the bonds greater than at present or otherwise in prospect," the Council stated. The announcement said:

"Under the plan the new bonds during the years 1948 to 1953, inclusive, will share with other bonds of Chile's external funded debt in a general sinking fund amounting to $2,531,000 annually. The fund will be applied semi-annually to amortization of the Republic's external bonds through purchases of bonds below par or through drawings by lot at par. For the year 1954 and subsequent years, Chile will pay total service amounting to 4% of the principal amount of new bonds outstanding on Dec. 31, 1953; for amortization of the new bonds annually commencing Jan. 1, 1954 there will be provided the difference between the specified 4% total service requirements and the 3% annual interest requirements. The new bonds will share equally with any other creditors of the Republic in any lien or charge which Chile should place on copper, iodine or nitrate revenues to secure any external debt."

Adjustment plans on terms substantially similar to those offered holders of dollar bonds will be made to owners of Chilean sterling bonds and Swiss franc bonds, Mr. Alessandri stated. The Government of Chile has agreed that if, at any time, holders of sterling or franc bonds are accorded treatment more favorable than that offered to holders of dollar bonds it will extend the more favorable treatment to owners of the proposed new bonds. The present offer is not conditioned upon acceptance of any specified percentage of outstanding dollar bonds and will remain open for acceptance until June 30, 1951, unless extended. Application will be made to list the new bonds on the New York Stock Exchange.

Besides bonds of the Republic of Chile, the offer is extended to holders of bonds of the Mortgage Bank of Chile, Chilean Consolidated Municipal Loan, City of Santiago bonds, Water Company of Valparaiso bonds, etc.

Schroder Trust Company, New York City, fiscal agent for Chile, will handle the exchange of securities.

Britton Officer of Briggs, Schaedle Co.

Briggs, Schaedle & Co., Inc., 14 Wall Street, New York City, announce that Robert H. Britton has been appointed an Assistant Treasurer.

Gray Exec. V.-P. Of Stock Exchange

Emil Schram, President of the New York Stock Exchange, has announced the appointment, with the approval of the Board of Governors, of Edward C. Gray as Executive Vice-President, effective Jan. 1. Mr. Gray will succeed Howland S. Davis, who is retiring as an active staff member but who will, thereafter, serve the Exchange in an advisory capacity. Mr. Davis, a former governor and member of the Exchange, became Vice-President in 1939 and Executive Vice-President in 1940.


Edward C. Gray

Mr. Gray has been First Vice-President for the past two years. He was first employed by the Exchange in 1918. Assistant Secretary and then Secretary of the former Committee on Business Conduct, he became, in 1940, following the reorganization of the Exchange, Director of the Department of Member Firms. He was appointed Assistant Vice-President in 1943 and Vice President in 1945.

Mr. Gray resides in Westfield, New Jersey; is 46 years old, and was graduated from New York University.

Halsey, Stuart Offers Okla. Gas & Elec. Bonds

Halsey, Stuart & Co. Inc. heads a group which on Dec. 8 offered $7,500,000 Oklahoma Gas & Electric Co. first mortgage bonds, series due Dec. 1, 1978, 3¼%, at 102.52% and accrued interest. The group was awarded the bonds at competitive sale on their bid of 101.851%.

Proceeds from the sale of the bonds are to be applied to the prepayment of $5,500,000 notes, contracted for additions and betterment to physical property, and its construction program for the remainder of 1948 and early 1949.

Oklahoma Gas & Electric Co. is engaged solely in the electricity business serving 216 communities in Oklahoma and 24 in western Arkansas, having an aggregate population estimated at 890,000. Among the larger cities are Oklahoma City, Fort Smith, Muskogee, Enid and Shawnee. The Company also furnishes electricity to practically all of the major oil producing areas in Oklahoma.

Peoples Gas Lt. & Coke Debentures Placed

With the termination of the subscription period Dec. 1, at 3 p.m. nearly 96% or $15,648,300 of the $16,400,000 of 3% convertible debentures offered on Nov. 1, 1948, by The Peoples Gas Light and Coke Co. were purchased through rights issued to stockholders. The unsubscribed balance of the debentures amounting to $751,700 underwritten by the Chicago investment firm of Halsey, Stuart & Co. Inc. were sold at competitive bidding Dec. 3, at an average price of approximately 103.96%.

The underwriters in October paid Peoples Gas Light & Coke Co. $1,000 for the privilege of underwriting the issue.

Bases for 1949 Conservative Optimism

By ARTHUR C. BABSON*

Vice-President, Babson's Reports, Inc.

Investment counsellor holds 1949 business conditions will be close to 1948, and there is plenty of room for optimism despite clouds. Lists expected changes from 1948 level in various industries and sees inflationary and deflationary forces counteracting each other.

In discussing the Outlook for Business, I wish to dwell first on future long-term trends as opposed to short-term trends. Business volume has been well above normal for a period of approximately eight years and is currently at a point 30% above normal. After taking into consideration the demand generated by wartime shortages, it is clear that this high volume of business cannot be sustained indefinitely, even with governmental support, at the very high level of output which has been experienced during the three postwar years. Babson Organization studies going back to 1871 indicate that long periods of above-normal business are inevitably followed by periods of depression. It is therefore highly probable that during the next Presidential term, business volume will contract to a very considerable degree falling to normal at best, and possibly well below normal as expressed on the Babson chart of U. S. Business Conditions. This statement is predicated on the thesis that the Law of Action and Reaction which applies in the physical world also applies in the economic. While political factors are of prime importance, it must be kept in mind that a Republican Administration would have had to face the same long-term economic factors which now confront Mr. Truman's new term of office.

1949 Business Close to 1948

Even though businessmen are among those toward whom Mr. Truman is not too favorably disposed, there is no reason to face 1949 with a spirit of extreme pessimism—rather conservative optimism is in order. From your Babsonchart you already know that the Physical Volume of Business has smashed all records so far in 1948. Some may consider it folly to expect another 12 months of such hyperthyroid manufacturing and trade activity. It is time for a depression, they declare. The bubble will surely burst as it did in 1929.

We do not subscribe to this talk in spite of our faith in the Law of Action and Reaction as applied to economics. Here is why. 1949 is going to be a very different story from 1929. In spite of the election results, we are approaching the threshold of the new year with the greatest backlog of buying power in the history of this country. Employment, at 62,000,000, has already soared above even the demands of Henry Wallace. Wages are higher than the fondest dreams of the social Utopians. There is still a tremendous unsatisfied consumer demand for all manner of goods and services. Our humanitarian nation has determined to feed and clothe the war-desolated, the impoverished, and the needy throughout the world.

Civilian Plus Military Production

With hatred for totalitarian methods deeply engrained in the souls of Americans, we have undertaken the task of arming those Western nations of Europe threatened by the juggernaut of Communism. Even the casual observer can clearly see that we have bitten off a huge mouthful, and now we must prove we have not bitten off more than we can chew. It seems to us that only America would have the initiative, the glorious arrogance, to embark upon such a titanic venture. But here we are, and 1949, will see all of us—company officials, statesmen, labor leaders, workers of the nation, distribution experts, salesmanagers, advertising leaders, religious groups—marching toward that elusive goal of world peace and security under a powerful Democratic Administration. Regardless of our personal feelings we must all unite behind the President to maintain prosperity at home and to work for international peace and brotherhood.

Domestic Business in 1949

With this background and our 40 years of experience in studying and forecasting trends, we are ready to predict in general and on an industry-by-industry basis, the probabilities for the coming year. Even though the average of general activity for 1949 may decline at least 5% below that for 1948, relatively good business will continue. Any such downdrift would stem from special situations in individual lines of industry. Competition will be greatly increased. While it will be easier to supply the goods for a customer's order, it will probably be more difficult to get the prices you want. In other words, net profits are likely to take a beating from the exaggerated costs of labor, materials, equipment and distribution.

There will be the usual variations in the manufacture of food products in accordance with supplies from the 1948 crops, but it would not be surprising to see 1949 surpass 1948 in total output. We look for no marked change in 1949 from the 4.6 billion pounds of cotton consumed this year. The same applies to wool consumption, at or close to 1.3 billion pounds. With cotton in heavy supply, demand for rayon may decline until it stabilizes at around 780 million pounds for next year. Boot and shoe production, relatively featureless during 1948, is not expected to move radically lower over the next 12 months. The extraordinary consumption of rubber evident throughout the current year should hold strong in 1949, close to 1,100,000 tons.

More Individual Industry Forecasts

The paper industry built up inventories all along the line in 1948, with production outstripping consumption. Activity, therefore, may be reduced to some extent over the period ahead. Printers and publishers are not likely to be quite so busy next year as they have been this year. Tobacco manufacturing, which has reached spectacular proportions in recent years, is not expected to lose ground in 1949. Among the important heavy goods industries our output of automobiles should continue to increase, possibly passing the 5.5 million mark for passenger cars and trucks. This increase would spring entirely from the increase in passenger car production. Barring emergency defense or wartime allocation, the capacity of the steel industry may easily rise from 85 million short tons in 1948 to 90 million short tons in 1949.

Construction Outlook for 1949

In viewing the possibilities for the building materials industries and construction activities, we must look for some declines from the tremendous heights of 1948. The most urgent construction has already been completed, and the cost of home building has skyrocketed to such an extent that the average worker can no longer afford to buy. We would not be surprised to see total building and construction activity drop from a dollar volume of $17.5 billion in 1948 to $14 billion next year. In this connection the output of cement may also turn downward along with lumber. The fuel and power industries will do fairly well in spite of some weakening in anthracite production because of a growing supply of other fuels over recent months. Output of bituminous coal will show a less noticeable decline from the 580 million net tons in 1948 to a possible 560 million next year. The petroleum industry will be a gold star performer over the next 12 months, sharing the field with natural gas and electric power.

As far as transportation is concerned, the airlines will show the only real expansion in 1949, perhaps reaching a total of some six billion passenger miles before the year is over. There will be nothing to hold back airline progress once the route confusions and entanglements are ironed out. Railway freight ton-miles may drop from 640 billion in 1948 to only 590 billion next year, as a result of built-up inventories, increasing transportation competition, and the declining cross-hauling resulting from the new anti-basing point regulation. Some shrinkage is expected also in railway passenger miles as business difficulties become fewer and require less traveling.

Lively Foreign Trade Prospects

We do not feel that we are too optimistic in predicting that exports may total $13.6 billion in 1949 and imports rise to $7.6 billion.

There is no question that production of military material is slated for an enormous increase, probably approaching 50%. If international relations should depreciate further, much greater gains would be immediately evident. Even though national income may very well contract from the astounding 1948 total of approximately $222 billion down to around $210 billion, that will still leave a reservoir of purchasing power that would have been thought purely visionary a few years ago. The next income of farm owners is likely to dip somewhat from current peaks. In view of the nature of farmers' expenses, however, it still leaves a huge margin over and above living costs. In short, farmers will be even wealthier in relation to other economic groups next year than they have been in 1948. Those living in agricultural districts may buy somewhat less over the next 12 months, but it will be more through satisfaction of needs than through lack of money.

There will be less business in lines for which employers spend money and more business in lines for which the wage worker spends money. This means that the Republicans will have less to spend and the Democrats will have more to spend.

For those interested in specific lines of industry, here is a fairly extensive list with the expected rate of output for 1949 compared with that for 1948. If there seem to be quite a number of minus signs, remember that the comparisons are being made with the greatest boom years we have ever seen. Thus in many instances even an apparently radical drop may actually leave that industry at the highest level ever seen, with the exception of 1948.

Expected Output for 1949 Compared to 1948

Industry—	Net Change From 1948 Average
Manufactured foodstuffs	+ 5%
Farm income	—15%
Rayon output	— 5%
National income	— 5%
Cotton consumption	Unchanged
Wool consumption	Unchanged
Rubber consumption	Unchanged
Automobile manufactures	+10%
Steel output	+ 5%
Paper production	— 7%
Printing and publishing	— 5%
Cement	— 5%
Boot & Shoe Otuput	— 5%
Tobacco manufactures	Unchanged
Foreign trade	+ 5%
Bituminous coal	— 5%
Anthracite	—10%
Crude petroleum production	+ 3%
Natural gas	+ 7%
Copper mining	Unchanged
Lead and zinc output	+ 5%
Building & construction activity	—20%
Electric power output	+ 3%
Airlines passenger miles	+10%
Railway freight ton-miles	— 8%
Lumber production	— 5%
Military activities including aircraft production	+50%
Retail trade:	
Department stores	—10%
Mail order	—10%
Variety chains	— 5%
Food chains	—10%

Wholesale Commodity Price Outlook

Now that Truman is President-elect, the most important matter facing the American people, barring the possibility of war, is probably the future course of wholesale commodity prices. This issue is extremely vital because it will affect the pocketbook of every buyer in the land, from the big industrial purchaser down to the ordinary housewife, who even now is pinching pennies to meet the family's weekly grocery bill. As prices go, so will go the buying power of your dollar—or what still is left of it. For inflation in this country already is far advanced—so far, in fact, that more and more prospective buyers of many items, such as homes and automobiles, are being forced out of the market through sheer inability to pay. Is another whirl of inflation ahead, or has the postwar price boom about run its course?

Inflation vs. Deflation

Were it not for three important factors, we should boldly forecast lower average wholesale commodity prices during 1949. These factors, which seriously complicate the price problem, are: heavy government expenditures for defense and military lend-lease, mounting pressure for a fourth round of wage increases, and the recent bid of the railroads for still higher freight rates. The inflationary force resident in these situations cannot be denied. Yet they are in conflict with deflationary factors already evident in our national economy. Outstanding among the latter are continued heavy production in most categories and stiff buyer resistance to high prices. We have seen what unusually large crops have done to grain and feed prices this season; and how the long-continued flood of cotton goods has inundated demand and swamped prices. And now the wool industry seems to be facing a similar though less drastic experience. Other such piecemeal readjustments are to be

(Continued on page 20)

*An address by Mr. Babson before the National Business Administration Conference of the Y.M.C.A., Buffalo, N. Y., Dec. 1, 1948.

Canadian Securities

By WILLIAM J. McKAY

Airy references to the Age of Light-Metals, Plastics and even the Atomic Age notwithstanding, the current era still belongs to the Iron Age. Iron-ore constitutes the very life-blood of our modern civilization. Without abundant and readily available supplies of this indispensable commodity the wheels of our complicated economic machine would soon grind to a halt. Upon the basis of its unrivaled wealth of iron ore this country has established the greatest industrial empire in the world. Steel built the factories, provided the tools and the machines, the means of transport by land and by sea, the bridges, the pipe-lines, the storage-tanks and so on through the whole gamut of industrial fundamentals. In times of peace steel has been the keystone of American prosperity, in time of war it still determines the balance in favor of victory or defeat.

Until World War II there was little anxiety concerning the adequacy of future reserves of high-grade iron ore. The mighty Mesabi range was considered capable of meeting the foreseeable demand. Today the picture has completely changed. U. S. iron and steel interests are now only too aware that the life of the Mesabi deposits is limited. Furthermore the demand for steel is continuing to expand to the extent that current supplies are now insufficient to meet the insatiable demand. Consequently frantic efforts are now being made to secure long-term reserves of this basic mineral on the success of which depends the future prosperity of many U. S. steel firms and perhaps the U. S. steel industry as a whole.

Although iron-ore deposits in remote areas abroad are now being feverishly surveyed the key to the problem fortunately is to be found not too far afield. Once more Canada provides the happy hunting ground for mineral prospection and again a great mineral reserve has been uncovered within the area of the Laurentian Shield. Rivaling and perhaps surpassing in capacity and accessability the great Mesabi deposits, the Quebec-Labrador iron-field 700 miles northeast of Montreal gives promise of becoming the world's major source of supply of this essential mineral. Already plans are being completed for the construction of a 360 mile railroad which will connect the field to tidewater on the Gulf of St. Lawrence. Also situated within the area of the field itself are the Grand Falls which can be utilized to become one of the largest sources of hydro-electric power in the world.

Geologists from this country who have recently surveyed the territory are enthusiastic concerning the possibility of early exploitation of this immense addition to the world's source of iron-ore supply. It is believed that as soon as the railroad link and port facilities are completed, the cost of which is estimated at approximately $200 millions, ore can be immediately excavated by power-shovel. Favorable comparison with the hitherto unrivaled Mesabi has been made with regard to the accessability and depth of the Labrador deposits. The consummation of the union of Newfoundland with Canada will further help to expedite the development of the Dominion's new source of mineral-wealth.

When consideration is also given to Canada's recent major oil discoveries it would appear that the Dominion is now well on the way to self-sufficiency as far as basic industrial requirements are concerned. Moreover in the not too distant future Canada is likely to become a major exporter of iron ore and oil whereas previously these items figured prominently in the import column. In this event it is probable that the Canadian exchange authorities would no longer be preoccupied with the problem of maintaining the dollar at its present parity but would instead be obliged to adopt measures to prevent an undue appreciation of the currency.

During the week the external section of the bond market continued firm but inactive. The internals were also steady with demand centered on short-term corporate issues. There was an unusually large turnover in the free funds market where sellers predominated in spite of a strong flow of oil investment capital. Stocks were irregular with Western oils again the most actively traded issues. On the announcement of the Alberta crude oil price cuts there was a temporary decline followed by a sharp recovery as a result of a new discovery by Socony-Vacuum Oil Co., on leased Crown land near Hanna, Alberta. Base metals were assisted by the announcement of a two-cent increase in the price of zinc and Golden Manitou and New Calumet set new peaks for the year. The industrials and golds on the other hand were mostly dull and inactive.

Paul B. Jones Co. Opens

LITTLE ROCK, ARK.—Paul B. Jones has formed Paul B. Jones & Company with offices in the Pyramid Building, to act as dealer in municipal bonds, investment trust shares, and general market and local issues. Paul B. Jones, proprietor of the firm, was previously with Dabbs Sullivan Company.

Bases for Conservative Optimism in 1949

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expected in the year ahead, barring war.

War and Commodities

Our conclusion is that any resurgence of inflation will not carry far, war or no war. If the menacing East-West situation should, by some miracle, soon be resolved without resort to arms, then the deflationary forces already at work would reassert themselves with increasing power. If, on the other hand, war should break out, or full preparations for war be ordered, then we forecast that the government would quickly clamp on extremely rigid price and other economic controls. Princes of many commodities probably would be fixed at lower levels than now prevail. Striking a balance among all these conflicting economic forces, we forecast that the line of least resistance for the over-all index of wholesale commodity prices will be downward before the coming Winter melts into Spring. Our advice to buyers at this extremely uncertain stage of the business cycle is to steer close to the shore.

Fourth Round for Labor?

Labor big-wigs are planning to push for a fourth round of wage increases starting next Spring. Just how successful they will be depends upon the trend of living costs meanwhile, the attitude of the rank and file toward causing trouble, and the extent of the pro-labor attitude of President Truman. It is our opinion that there will be a fourth round of raises, averaging around 5%. The real emphasis will be switched to the winning of pension systems, sick benefits, and a guaranteed annual wage to make up for the small wage gains likely to be achieved. Everything points toward full employment for 1949, and the holding of unemployment to those temporarily shifting jobs or inveterate drifters.

Shortage of skilled workers will be the rule rather than the exception in most industrial centers over the next twelve months, becoming more intense as draft calls are stepped up. Semi-official estimates have it that the labor force of the nation will have to be increased by a million workers over the next year if we are to meet all domestic and foreign commitments. We fell that the cost of living is now close to a peak, that food costs may average 10% lower during 1949. Rents and the expenses of furnishing and running a house may continue gradually upward, but the big spurts are over. The unions, however, will use the high cost of living to compel strikes next Spring, even though price averages may be softening somewhat.

1949: Year of Destiny

In summing up the outlook for next year, we would say that there is plenty of room for optimism despite the clouds that make the international skies gloomy. We have a complete Democratic government, a government which although sympathetic to labor, will not forget the American ideal of free enterprise. 1949 will have to be a year of military preparation for the purpose of enforcing the peace. We do not look for war with Russia this year, nor do we think it probable that hostilities will be undertaken in 1949.

Thus, we may say that 1949 will be a year of precarious peace, a year of decision. Firmness of action, preparation for the worst, hope for the best, will be the key-notes. Russia can make or break permanent peace. But, whichever she decides to do, we will be ready to accept our responsibility in rising to the demands of destiny, ready to fight if necessary for a just peace, for religious and social freedom for all men!

Urges Partial Tax Exemption of Govt. Bonds

William J. Field, President of Commercial Trust Company of New Jersey, in prepared statement directed to Dr. Nourse, Chairman of Council of Economic Advisers, says in this way present 2½% rate on government bonds can be maintained.

In a memorandum recently released by William J. Field, President of the Commercial Trust Company of New Jersey, Jersey City, which is directed to the attention of Dr. Edwin G. Nourse, Chairman of the Council of Economic Advisers, a suggestion is made that government bonds be made partially tax exempt as a means of maintaining the government long-term borrowing rate of 2½%. The statement of Mr. Field follows:

W. J. Field

"The government desires to maintain the 2½% rate as the top borrowing rate. It also desires a larger market for government issues.

"There are two features of our economic situation which if changed should accomplish both objectives.

"One of our troubles is the loading of the Federal Reserve System with bonds because of pegging the market and the other the increasing cost to the government of carrying the debt, both of which have basic inflationary influence.

"While the Federal Reserve System has the ability to take all bonds offered, the inflationary potential increases with each purchase.

"The cost to the government carrying the debt increases every time the rate of interest on the certificates is moved upward.

"It is essential that the present cost of the debt remains static as potential deficit financing must be done at present rates.

"It would seem that a possible solution would be to open a new market by making the bonds so attractive that non-banking interests such as individuals, estates and trust funds with individual beneficiaries would supply such market. At the present time this class of investor is out of the picture as present returns from government bonds, after taxes, offer no inducements.

"If the bond interest was non-taxable in whole or in part for income taxes for this class of investor on an amount to maintain a balance with the whole situation, would not the whole picture immediately change? Would not a demand for the bonds materialize sufficiently to absorb sales by banks, insurance companies and savings institutions? Probably if income up to $5,000 was exempt, this result might be accomplished.

"Would not such a change stimulate the sale of savings bonds and at the same time give the purchasers of savings bonds more confidence in holding them? The constant talk of dropping the pegged price is undermining confidence and causing redemptions.

"Also all bonds would sell well over the pegged prices thus relieving the Federal Reserve System from further purchases or at least greatly curtail the volume necessary to be protected by the pegs. Should a proper demand be thus established, the Federal Reserve System could sell most of its present holdings resulting in curtailment of the money supply. Banks' present holdings of municipal and corporate bonds should not be materially affected if the exempt situation was properly balanced while the greater demand for governments would undoubtedly lend support to bank government portfolios and retard bank selling. Many bank portfolios of government bonds are now in the red on a liquidating basis which situation would be remedied by this suggestion.

"Would not the absorption of deposits through such public buying have a more favorable effect on our inflation situation than the increasing of bank reserves?

"When banks sell governments to provide reserve increases they not only sell to meet such increase but also an additional amount that the invested capital may be used to better advantage and make up loss of earnings on the reserve increase.

"This same situation also applies when depositors withdraw funds with which to purchase governments. The bank pays such depositor from its reserves which must be replaced by additional sales. The whole process however reduces the banks' lending ability, places the bonds in the hands of non-banking interests and thus makes a considerable inroad on the inflationary situation.

"When banks sell governments as many will under the present conditions, in order to increase earnings necessary to absorb present extraordinary expenses, would not his suggested market absorb such sales and have a material effect on curbing additional inflation?

"While the government would lose some taxes, would not such loss be materially offset by the ability of the Treasury to maintain the present debt cost? There is a grave question as to whether this cost can be maintained under present changing conditions.

"The inflation potential caused by the additional funds (through tax savings) in the hands of the public would bear no important relation to the inflation caused by selling to the Federal Reserve System; in fact the reduction would be immediate and considerable.

"Of course this suggestion would not be favorable to banks as they would lose deposits and earnings but by injecting a situation foreign to this question, the earning situation could be replaced. That is, eliminate present FDIC costs which can conservatively be done at the present time. Surely the FDIC with a fund of over $1 billion increased each year with surplus earnings of from $35 million to $40 million plus a borrowing capacity of $3 billion has sufficent moneys to meet any banking catastrophe.

Paine, Webber Co. to Admit New Partners

On Jan. 1, Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of the New York Stock Exchange, will admit to partnership Carroll B. Cary of Detroit; Robert Gilmor, member of the New York Stock Exchange; Raymond W. Miottel of Detroit; Guenther M. Philipp of Chicago; John M. Valleau of New York; and Douglas M. Warner of Minneapolis.

Charles Vanek Joins Ames, Emerich & Co.

CHICAGO, ILL. — Ames, Emerich & Co., Inc., 105 South La Salle Street, announces that Charles R. Vanek is now associated with that firm in the analytical and research department. Mr. Vanek was formerly with Kneeland & Company of Chicago.

Recent Developments—Right Prescription for Our Economic Ills

By V. LEWIS BASSIE*

Director, Bureau of Economic and Business Research, University of Illinois

Prof. Bassie, contending no sizable recession is in sight and upward pressure on prices may be nearing end, holds recent developments in export situation and in domestic economy present a positive case for continued prosperity. Says, however, boom is sustained by large outlays on capital and government account, and while wage increases add to volume of consumer expenditures, they cannot keep boom going while other segments remain stable.

When this topic was proposed to me, I suggested that if we made the forecast immediate enough, it would save me a lot of trouble, because then the outlook couldn't be anything but the same as what we now have. On looking a little further ahead than that, and reviewing the various strategic factors in the business situation, I haven't really come up with a very different answer. My conclusion is that no sizable recession is anywhere in sight and, unless foreign affairs or government policies take an unusual turn, the upward pressure on prices may be nearing an end.

The basic support for the first part of this conclusion lies in the rising trend of government expenditures and the construction boom. As long as these important elements continue so strong, there can hardly be an appreciable letdown.

The second part of the conclusion derives not only from the recent behavior of prices themselves — which, although mixed, are on the whole slightly lower—but from the October surge in production. Steel production made a new all time high of 8 million tons, 400,000 tons more than the previous postwar peak of last May. The auto industry turned out 482,000 cars and trucks, including a new postwar high of 377,000 passenger cars.

It seems fair to say that these last few weeks have brought just the right prescription for our economic ills. We have here an indication that at least some of our key production problems are being solved. Higher production and improved productivity should help to restrain further general price advances. It is too early to predict a definite end to inflation, but the signs of the last two months have been distinctly encouraging.

The upward trend in Federal expenditures is not likely to be a temporary condition, but rather one which will persist as long as the international tension that lies behind it. In the fiscal year, 1948—that is, the year ended last June 30—Federal expenditures were at a postwar low of $36 billion. Expenditures in 1949 are estimated at $42 billion and in 1950 at $45 billion. Military expenditures of $12 billion in this fiscal year will will be about 30% of the total budget, and increases for the next two or three years have already been programmed. The increase from this fiscal year to next will probably amount to some $2 billion. Expansion of the air forces alone may require a billion dollars.

Exports Dropping

Another important area of advance for at least the next six months will be the export balance. Because of the lagging of the foreign aid program, our exports dropped almost continuously during the past six months or ever since ECA (that is, the Economic Cooperation Administration) went into operation. By Steptember, exports had declined to $926 million—about 40% less than the peak reached in the Spring of 1947 and 20% less than the 1948 high of last March. On the other hand, imports have held up very well since the beginning of 1948, reducing net exports to less than $400 million in September. Thus, the margin of exports over imports is at an annual rate of about $4½ billion, or less than is provided in the ECA appropriation alone.

These emergency programs always seem to get under way slowly, and the ECA program is just moving into high gear. Before the end of the year almost 90% of its funds will be allocated; and with purchase approvals moving up even faster than allocations, a rising trend in procurement and shipments may be anticipated. As goods can be made available for export, we may expect not only ECA but also other dollar resources to be fully used by foreign purchasers, so that the potential rise in the export balance again stands as a cushion against any domestic decline.

The increases in these programs should be more than enough to compensate for any foreseeable declines in other important segments of the economy.

Domestic Economy Still Strong

Not that such compensation is clearly necessary! The domestic economy still seems strong enough to make a pretty good case for itself. Construction gives every indication of continuing at high levels. In October, with the seasonal decline well under way, new construction put in place amounted to $1.7 billion and was still 14% above the previous year. An expended labor force, increased efficiency, and improved operations in the supplying industries will not only support the upward trend, but hold construction costs down.

Public construction now appears to be the strongest segment of the construction picture. As an example of the backlog of demand in this field, I would like to cite the recent report that Illinois alone needs $2½ billion of work to fix up its roads. That report said nothing about schools, hospitals, community facilities and other needed building. Generalize this situation for all 48 States and you will come up with an astronomical total that has hardly been touched by construction already put in place.

During the last few months, residential construction has lagged somewhat behind the strong trend that it had been following in the first half of the year. This was particularly true of multiple-family units being constructed for rental purposes. The lagging may be explained in part by the temporary lapse of Title VI of the National Housing Act. Although this title was reinstated at the special session of Congress last August, its provisions are not quite as advantageous as in the original version. Other retarding elements in this picture are, of course, high construction cost and the tightening of the mortgage market. These, however, do not seem to be insurmountable obstacles.

While the demand for housing is unquestionably restricted by high costs, it is nevertheless large enough to sustain the boom through 1949. Remember that high costs are only one part of the picture. They are part of a boom whose primary feature is the acute need for housing. That need has only partially been met and it seems clear that the boom still has some way to go.

As for financing, there is little to encourage any idea that funds are lacking. It is primarily a question of terms and rates; and even after recent increases, interest charges are a smaller portion of the total costs of home ownership than in past periods of high construction activity.

I am sure most of you would agree that costs have gone high enough, and that if they come down a little, as they have shown some signs of doing in recent weeks, it would be highly desirable for the future of the industry. Yet, the point I would like to emphasize is that these high costs and tighter mortgage terms will have more of an effect in cutting the top off the boom than of bringing it to a quick end. If the boom should continue with a flattened top, and with costs stable or tending downward over a period of time, rising incomes will tend to recreate the market that has been temporarily wiped out by high costs and mortgage restrictions. Then, though the boom does not get quite as high as it might in any one year, it may well last longer.

New Capital Expenditures

Consider now some of the factors that can no longer be regarded as forces on the upside. First are business expenditures for new equipment. These have risen sharply and now comprise a larger share of total output than in prewar prosperity periods. At the annual rate of $20 billion reached in the first half of this year they are in excess of the volume that prewar experience indicates would normally be installed in conjunction with the current overall volume of physical production and distribution.

There is, however, little reason to believe that a decline in business expenditures for new equipment could initiate a recession in the near future. The excess over normal has been very moderate and the balance has been on that side for only about a year. In other words, there has been time to work off only a small part of the backlog accumulated during the war years and the rate at which it is being worked off is relatively slow. Even if the excess should be eliminated during 1949, the continued high rate of operations in the economy generally would restrict the decline in new equipment installations to several billion dollars at the outside. And if such a domestic decline were timed in the next six months, it would be almost perfect for the foreign purchasers who need equipment for their reconstruction and development programs.

One reason that has been advanced to support the probability of reduced capital expenditures is lack of financial resources. Only much stronger credit control measures could accomplish this, however, and doubts about the possibility of making such controls effective with so large a volume of savings bonds outstanding is one reason that they have not been undertaken. Last year gross private savings fell only a little short of gross private domestic investment, making unnecessary any substantial drawing upon accumulated past savings. This year, savings are again advancing with incomes. For some time corporations have been obtaining the bulk of their needed financing from internal sources like retained profits and depreciation reserves or from institutional investors like insurance companies. SEC reports as of the middle of this year show that the liquid position of corporations is still very favorable. With profits continuing high, financial positions are likely to be still further improved. Furthermore, price stabilization will have the effect of eliminating or greatly reducing profits from inventory revaluation; and this in itself will improve the financial position of business concerns to the amount of the taxes paid on these fictitious profits. All this suggests that the credit resources of the banking system may not continue to be drawn upon in 1949 to the extent that they were in 1948.

Business Inventories Declining

Another factor sometimes cited as likely to bring on a decline is the very rapid expansion of business inventories. At the end of September, Commerce Department figures show these to have reached a record high of $53.3 billion. The increase in dollar value has unquestionably been large, but the advances that brought inventories up to this high level were in large measure advances in the prices of existing goods and now new accumulations. Inventories are now more nearly in line with sales than in the war period, but there is little evidence that they are overburdening. On every hand, there is evidence that business has been pursuing a cautious inventory policy, and it is reasonable to assume the continuation of this policy in 1949. Such a policy should not lead to substantial liquidation; and it seems to me, therefore, that inventories may be counted a neutral factor in 1949.

Summing up at this point, it seems likely that the total of all these strategic types of expenditures will be a little higher a year hence than it is now. This is important not only in itself but for its implication that consumers' incomes and expenditures are likely to advance correspondingly.

Preliminary indications are that consumers' incomes and expenditures were generally well maintained in October with prices no higher than in September. Only farm income has declined from its postwar peak, which was reached in September. And while farm income may be expected to continue somewhat below the high levels of the last year, price supports will prevent the decline from going too far; so the worsening of the farmer's position is not likely to be important enough to produce any general economic letdown.

Consumer Resistance

There have indeed been signs of consumer resistance to high prices

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*An address by Prof. Bassie before Illinois Bankers Conference, University of Illinois, Urbana, Ill., Nov. 18, 1948.

Recent Developments—Right Prescription for Our Economic Ills

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in various parts of the economy. Most recently, reports of the buyer's market have been common in cotton textiles and apparel. Earlier, soft spots had been reported in small radios, furs, and costume jewelry. In particular lines, of which these are only examples, adjustments have been taking place from time to time all through the last two years. I believe these adjustments are a sign of progress in the fight against inflation and may well continue as production improves in still other industrial segments.

During these past two years, total consumer expenditures have been running somewhat in excess of what may be considered normal in relation to the income consumers had at their disposal; but through most of the period there has been a progressive narrowing of the margin. After the sharp upward turn in prices in the fall of 1947, expenditures for non-durable goods moved into a deficiency position and the deficiency has been almost continually widening since that time. This statement that expenditures for non-durables are below rather than above normal may seem curious in view of the well-known fact that outlays for non-durable goods are now taking an extraordinarily large portion of the consumer's budget. Yet the past relationships indicate that an even greater proportion of consumers' expenditures would be concentrated on non-durables during this kind of price squeeze, so that a shift away from these goods seems actually to have occurred.

The question of importance for the outlook is whether the gap between the actual and expected expenditures will widen or narrow in the months ahead. The answer to this question appears to lie in whether prices advance or fall in relation to income. The food price reductions made during the last two months have been advantageous in bringing these prices more into line with incomes, but not nearly enough to eliminate the squeeze. The favorable aspect of the situation is that further price declines, or further increases in incomes with prices stable, will tend to bring actual physical consumption back up to normal. In other words, there is a large potential demand for various kinds of nondurable goods as soon as price declines bring them within the budget of consumers who have been squeezed by the high cost of living. A declining price level by no means holds the prospect of reduced production and employment.

As for durable goods, rising production brought the level of expenditures a little above the expected value in the last quarter of 1947. The excess of expenditures has been small compared to what it might have been if larger production had been possible. The conclusion is inescapable that there has been little progress in working off the backlogs of unsatisfied demands accumulated during the war period and, therefore, to the extent that production bottlenecks can be broken, expenditures for durable goods may be expected to continue upward.

What I have been trying to present up to this point is a positive case for continued prosperity—and please note that I said prosperity, not inflation. There is a tendency to lose sight of the fact that except in special circumstances, as when the printing presses are kept rolling, an inflationary boom tends to be self-limiting. In particular, there is widespread acceptance of the idea that wage increases are automatically reflected in higher prices which eliminate any gain to their recipients. The fact is that an inflationary boom cannot sustain itself in this way. Part of the increased income leaks out into taxes, savings, retained profits, and business reserves. These leakages continue during an inflation as at other times. The amount at present to perhaps as much as 40% of the increment. As has already been pointed out, there is a large non-income factor in this postwar inflation. The boom is sustained by large outlays on capital and government account; and while wage increases add to the total volume of expenditures, they cannot keep the boom going while these other segments remain stable.

Rising Federal Budget

Referring back to what I have said about the rising Federal budget, I want to make it clear that this is not a printing-press type of expansion. It comes about through a series of definitely programmed changes, which are limited in aggregate amount, and whose economic effects will be correspondingly limited. I qualify this by barring any unusual turn of international events or government policy, but again I want to make it clear that I do not believe any such turn can be predicted at this time. The Truman administration is as completely committed to economy in government as the Republicans, and the Republicans are as fully committed to the expanding programs as the Democrats.

Before closing I should like to take just few minutes more to discuss some of the fears and uncertainties surrounding what I consider to be a rather bright economic outlook. The most important of these fears flows from the tense international situation. I do not want to minimize the dangers which exist in the present struggle for control of Europe and Asia, but the situation does bring to mind the thesis of a historian I know that after every war the victor takes measures to protect himself against the possibility of future attack. After the first World War, we had a little tiff in Eastern Europe, and here at home we had some of the things you have been reading about in the papers recently—a spasm of witch hunting, a decade of intensive military training, and elaborate planning for industrial mobilization in a future emergency. One important difference is that this time we have only one opponent worthy of fear, and that opponent is also a victor, undertaking the same kind of protective measures that we ourselves feel to be necessary for our safety.

The uncertainty generated by this international situation seems to carry over into our day-to-day affairs. It is as if we are continually interrupting our work to glance over our shoulders, to make sure the Indians aren't dashing out of the woods before we can get our stockade completed. I do not think there is anything we can do about this situation. I am sure, however, that as time passes, we shall view it in truer prospective, and more calmly.

On the domestic side there have also been fears, primarily the fear of a recession in business with all its attendant evils of unemployment and business failure. We carry over in our minds memories of the dark days of the depression, and possibly that is one reason why the inflation does not impress us as the real economic bogey man.

This fear of a recession seems to derive from two main sources, first, the boom-and-bust concept of economic affairs, and second, the lagging stock market. In the last two issues of the "Illinois Business Review" we have attempted to deal at some length with these questions, and I shall take time here merely to summarize our most important conclusions.

With reference to the first, the important thing is to recognize the fallacy of the idea that what goes up has to come down. There is no immutable law of gravity in economics. A boom does not just because a boom cannot go on forever. It ends because there is a decline in the expenditures that were forcing prices up.

What has occurred up to this point is that prices, freed from wartime restrictions, have advanced to a level more nearly coordinate with aggregate money demand, made effective by high current incomes and by the liquid assets accumulated during the war years. In other words, the postwar inflation has largely closed the gap between the volume of claims against production, represented by existing purchasing power, and their real counterpart in goods and services. That this was accomplished at the expense of fixed income recipients and holders of liquid capital in general, and for the benefit of current producers, does not mean that any new, recession-forcing condition has been introduced into the economic scene.

This fear that we are in for a letdown is reinforced by the analogy with the boom and bust following World War I. Whatever validity this analogy may have once had is now quite exhausted. The situation today is quite different from that of 1920. There has been no inordinate piling-up of inventories, no pyramiding of insecure loans and credit. We have already been through the transition period needed to get the construction industry into full swing and to bring output up to a high level in the reconverted durable goods industries. We have private investment and government expenditures running at the rate needed to maintain current incomes flow, and we have the structure of incomes inflated to correspond with the level of prices. With these facts in mind, it can be firmly stated that the mere fact that prices are high does not mean that they are about to come down.

With reference to the stock market, I do not believe any rational connection can be established between its lagging and the future of the economy. Its effects on consumption and on investment have been practically negligible for some years. As a barometer of business, it has been rendered obsolete by trading restrictions and by the special postwar circumstances that have kept the public out of the market. The market has been left to the habitual traders known as professionals, and the present low level of stock prices reflects the unnatural preference of this group for liquidity and safety. The market is thin, with price changes sharp and erratic. It obtains neither the selling pressure nor the buying power to drive prices out of the narrow range that has prevailed during the past two years. In that period the market has failed to follow through on its own signals in both directions. Our advice to business is: Let the market go its own irrational way, and go ahead with your own legitimate plans.

In concluding, let me turn back to the positive approach; for we may better gauge our position by the analysis of economic conditions than by fallacies of boom-and-bust or theories of market barometers. On that basis, I repeat: The outlook for 1949 looks bright.

Britain's Position in European Economic Integration

By PAUL EINZIG

Dr. Einzig calls attention to sacrifices Great Britain is making in aiding European integration, particularly in its agreement to export to non-convertible currency countries in flagrant contradiction with policy of concentrating on elimination of Britain's deficit with hard currency nations. Says dilemma must be solved by compromise.

LONDON, ENGLAND.—It seems that the Paris negotiations for the integration of Western European economy are not proceeding as smoothly as was expected. They are indeed incomparably more difficult than were the negotiations that led to the agreement of Sept. 11, under which Marshall aid receipts were shared out and reciprocal inter-European aid was arranged. Even that task was none too easy, since countries which were themselves in need of aid were required to assist others. Sacrifices had to be made and were made. But these sacrifices were largely confined to giving away aid received. On balance, Britain is now to receive less Marshall aid during the first year than she originally expected to receive, and she has to increase her unrequited exports to the continent.

Dr. Paul Einzig

On the other hand, the proposed Four Years Plan means that the participating countries have to consent to making sacrifices four years ahead. What is even more important, they have to adapt their economies to the requirements of Western European integration. This means jettisoning certain valuable branches of production, either in order not to clash with the corresponding branches in other European countries, or in order to divert productive capacity to the manufacturing of goods needed by the other European countries. The output and capacity of industries working for markets on other continents is supposed to be reduced, while that of industries working for Western European markets is supposed to be increased. Purchases, too, have to be diverted to the continent, even if continental countries cannot supply exactly the goods Britain wants, and even if their prices are higher than those of the corresponding goods produced elsewhere.

Evidently this policy is in flagrant contradiction with the policy aiming at the elimination of Britain's deficit with the hard currency countries. Under it Britain is required to increase exports to countries which are not in a position to supply badly-needed food and raw materials, and which can only pay in inconvertible currencies or in secondary goods. These sacrifices are expected of Britain on the ground that they would assist in the recovery of continental Europe. The argument is that, as a result of such a recovery, European currencies will become eventually convertible, and Britain will then be able to spend on the Western Hemisphere the proceeds of the export surplus to the continent. This is, of course, a long-term outlook. For the next few years the sacrifices will weigh heavily on Britain. And there is always the risk that optimistic anticipations regarding the recovery of the continent will not materialize.

It would be idle not to envisage the possibility that internal or external political factors might prevent France and other continental countries from recovering sufficiently by the end of the Four Year Plan. What will then be Britain's position? Her system of production would have become converted for the requirements of trade with countries which are unable to pay in any form that is of any use. Integration on a large scale would mean giving away a bird in the hand for two in the bush. It would be a highly risky gamble. Yet it is necessary to go some way towards meeting the Continental clamor for integration. Britain cannot afford politically or morally to wash her hands of the Continent, apart altogether from any American pressure in favor of closer cooperation with Western Europe.

The government is confronted by a particularly awkward dilemma. The solution is bound to be a compromise. The only question is to what length the government can afford to go without compromising the country's prospects of achieving equilibrium. There are strong arguments against putting too many British eggs into the European basket. It is considered essential to retain a substantial trade with the British Commonwealth, and also with Britain's traditional markets in Latin America and the East. Above all, it is considered to be of vital importance to expand Britain's exports to the United States. No amount of benefit derived from Marshall aid would compensate Britain for the loss of this trade.

It will be difficult to find a solution, and the discussions may drag on for many weeks. Meanwhile Britain's attitude is likely to be subject to much criticism both on the continent and in the United States. But it is essential to realize that any solution which would deprive Britain of the chance of achieving equilibrium by the end of the Four Year Plan would be against the interests of both Western Europe and the United States.

Now Holton, Farra Co.

LEXINGTON, KY. — The firm name of Holton, Herrington, Farra Co., Bank of Commerce Building, has been changed to Holton, Farra Company. Officers are William B. Holton, President; John B. Farra, Vice-President and Secretary; and Frances C. Holton, Treasurer.

A. P. Herrington Mgr. of W. L. Lyons Co. Branch

LEXINGTON, KY. — Alex P. Herrington has become associated with W. L. Lyons & Co., Louisville investment firm, in charge of their recently opened office in Lexington. Mr. Herrington was formerly an officer of Holton, Herrington, Farra Co.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

H. Ralph Levy, partner in Neuberger & Berman, died on Nov. 28.

Interest of the late John J. Whipple in Wood, Walker & Co., ceased Nov. 24.

John S. Hardin retired from Starkweather & Co., Nov. 30.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets continue on the firm side as volume expands, and more investors lengthen maturities. . . . There is plenty of demand, nonetheless, for the shorter-term issues, because a cautious attitude still prevails in the money markets. . . . The loan trend is being watched very closely and although New York City banks have shown a downtrend in this item for the past three weeks, it is not yet conclusive enough to say that the turn has been made. There is, however, the opinion in some quarters, that the loan curve is losing its momentum on the up side and a definite reversal is looked for in the not too distant future. . . .

The partially-exempts are still in demand with the 2⅞s taking some of the play away from the 2¾s. . . . The tap bonds are being acquired by savings banks, with a good part of these funds coming from sales of eligible obligations. . . . The taxable 2s of 1952/54 have been well taken and seem to be assuming some of the leadership they held in the past. . . .

Because of the sharp sell-off in the market, when Federal came in and hit bids, the trading fraternity is not inclined to build up too much inventory. . . . Although the feeling is that the market will advance, not too much of a rise is looked for now. . . . A firm buoyant trading market seems to be the expectation. . . .

BUSINESS PICTURE STUDIED

Investors and traders are giving the government securities markets greater attention because of the soft spots that are appearing in the economy. . . . It is being pointed out that a mild recession in business would make less urgent the need for increased controls over the money markets. . . . Also, a downward movement in business might bring about a reversal in some of the policies of the money managers such as the tightening of the money markets and the upping of reserve requirements of member banks. . . .

However, the financial markets are in one of those interim periods, where it is not possible to definitely indicate whether the downtrend in business will be allowed to continue and thus round off the inflation spiral or whether there will be an acceleration of government spending that will keep the inflation pressure on, such as happened in the past. . . .

MATURITIES LENGTHENED

Although the picture is not yet clear there has been an inclination on the part of some investors in Treasury issues to lengthen maturities in moderate amounts. . . . Commercial banks have been putting some of their funds in the 2s, 2¼s and 2½s instead of bills and certificates. . . . Others have been selling some of the shorter maturities and investing the proceeds largely in the longest eligible taxable obligations. . . . Individuals as well as certain of the smaller non-bank institutions have been putting money to work in the ineligible 2½s of 1967/72. . . .

It seems as though the uncertainty about the business situation is relieving the uncertainty over dropping prices of Treasury obligations. . . . This is resulting in modest purchases of government securities by those that were previously on the sidelines because of the fear that support levels could or would not be maintained. . . .

SPOTLIGHT ON INSURANCE COMPANIES

Life insurance companies are getting attention from both State and Federal representatives and what will come out of all this, time alone will give the answer. . . . The importance of these institutions in the capital and money markets makes them vulnerable to greater supervision by the authorities particularly in a managed economy like ours. . . . Although sales of government bonds by these institutions may have interfered with the money managers in their control of the money markets, the reason for the talked of regulation of life insurance companies by the Federal Government is much broader and more significant than this. . . . The position of these companies in the loaning business gives them many of the attributes of commercial banks. . . . Private placement of securities as well as the purchase of real estate from corporations has had a marked effect upon the investment banking business. . . .

The change in savings habit of individuals has resulted in more of these savings going into insurance companies, through increased purchases of life insurance and the building up of pension funds. . . . Because of the increase in the cost of living, there is need for more adequate protection of beneficiaries, and this means that larger amounts of life insurance are being taken out by both old and new purchasers. . . . Pension funds are spreading and in some instances larger sums are being set aside because of the depreciation in the purchasing power of the currency. . . . The channelling of more and more savings into life insurance companies indicates that these concerns have become the largest savings institutions in the country. . . . This along with the sizable assets they administer means that their operations can have a marked influence upon the economy of the nation. . . . These appear to be some of the factors that are being given consideration by those that are looking into the life insurance situation from the regulatory angle.

Bache & Co. Announce Trading Facilities in Unrefined Gold

Metal Department of stock brokerage concern, in calling attention to premiums paid in various parts of world for refined metal, says it is in position to sell natural gold in 100-ounce lots for prompt or future delivery. Publishes paper by Herbert M. Bratter pointing out demand for gold and its use as a hedge against economic instability.

In publishing a paper written by Herbert M. Bratter, economist specializing in monetary subjects and formerly precious metals specialist of the U. S. Department of Commerce, Bache & Co., members of the New York Stock Exchange and also members of other stock and commodity exchanges, announce they are in a position to sell natural gold in 100-ounce lots, for prompt delivery or on contracts for future delivery. The gold will be packed in containers sealed by a responsible assayer, whose assay and weight certificates will accompany deliveries of the gold. The price quoted will be in dollars per troy ounce of material delivered.

The gold contracts for future delivery may be purchased on margin. At present, the margin required is $1,250. per contract of 100 ounces, which must be maintained. The Treasury's buying price for fine gold is $35. per ounce. The Treasury's buying price (less refining charges, etc.) is a guaranty of the basis at which contracts for natural gold could be resold. A sample form of the gold contract is reproduced herewith.

In making its announcement, the firm of Bache & Co. states that in this country, the Gold Reserve Act has made it illegal for private individuals to buy, sell, or hold refined gold. However, under Section 19 of the Provisional Regulations issued under the Gold Reserve Act, "Gold in its natural state may be acquired, transported within the United States, imported or held in custody for domestic account without the necessity of holding a license therefor." Gold in its natural state may not be exported. Thus while it is illegal to buy or hold gold coins, or refined gold in bars, etc., it is legal to buy, to hold, and to sell gold dust, nuggets, flakes, etc.

BACHE & CO.
36 WALL STREET
TEL. DIGBY 4-3600

NEW YORK 5, N. Y. November 25, 1948

GOLD CONTRACT
METAL DEPARTMENT
CONTRACT NO. AAA

BACHE & CO. agrees to sell and Mr. John Jones, 111 East 111th Street, New York, New York

SAMPLE CONTRACT

agrees to buy gold in its natural state, subject to the terms and conditions specified below:

UNITS: (see Note 1) Ten (10)

PRICE: $39.50 .... per ounce troy of material delivered.

DELIVERY at the office of Bache & Co., 36 Wall Street, New York, during the month of: May, 1949
delivery to be made on any business day within said month at seller's option:

CONDITIONS:

1. One unit represents 100 troy ounces of gold in its natural state (i.e., gold recovered from natural sources which has not been melted, smelted, or refined or otherwise treated by heat or by a chemical or electrical process). The gold is to be packed in a container sealed by Smith-Emery Co., Los Angeles, Calif. .... Lauck's Laboratories, Seattle, Wash., or, Ledoux & Co., New York City.... whose assay showing the gold to be 850 fine is to accompany the documents and the delivery. The Seller also has the option to deliver 5 ounces per unit less than or in excess of 100 ounces specified above and the Buyer agrees to pay for the weight delivered within limits specified above at the contract price.

2. The Buyer agrees to deposit with the Seller $1,250. per unit purchased. Balance of payment is due on date of delivery. Should the U. S. Treasury buying price of .999 fine gold decline below $35. per ounce the Buyer agrees to deposit with the Seller $1. per ounce for each successive decline of $1. per ounce in the U. S. Treasury price. The Seller agrees to credit said deposit on account of the purchase price.

If the Buyer fails to make said deposit payments, as above-provided, written notice and demand for same may be mailed by the Seller to the Buyer and Buyer agrees within 48 hours after said mailing to make such payments to the Seller.

Should the Buyer default either in the payment of any deposit installment as above-provided or in payment of the balance of the purchase price on the delivery date, the Seller may sell the contract metal either upon the day of said default or upon any following business day, either in the open market or at private sale, and any difference arising from such action, after giving credit to the Buyer for any payments made on account of the purchase price, shall be charged by the Seller to the Buyer who shall promptly pay the amount thereof to the Seller. In the event the difference between the contract price and the sale price shall be less than the payments made by the Buyer to the Seller, the Seller agrees to return to the Buyer the difference.

3. This contract is non-assignable by the Buyer except on the written consent of the Seller.

4. The Buyer certifies that this merchandise is purchased for resale in the same form.

5. The contract shall be in all respects subject to U. S. Federal and State laws, regulations and requirements.

6. Any controversy or claim arising out of or relating to this agreement or the breach thereof, shall be settled by arbitration, in the City of New York, in accordance with the Rules, then obtaining, of the American Arbitration Association, and judgment upon the award rendered may be entered in the highest court of the forum, state or federal, having jurisdiction.

BACHE & CO.

SIGNATURE ____________________ by ____________________

ADDRESS ____________________

Please acknowledge your agreement to this contract by signing the duplicate copy herewith and returning same to us.

Nathan Sharp Joins Central Republic Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Nathan S. Sharp has become associated with Central Republic Company, 209 South La Salle Street, members of the Chicago Stock Exchange. Mr. Sharp was formerly Vice-President of R. S. Dickson & Co., Inc. in charge of their Chicago office. Prior thereto he was with Bacon, Whipple & Co. and R. W. Pressprich & Co.

Hooker, Fay Co. Admit John S. Logan to Firm

SAN FRANCISCO, CALIF. — John S. Logan has been admitted to general partnership in Hooker, Fay & Co., 315 Montgomery Street, members of the San Francisco Stock Exchange. In the past Mr. Logan was a partner in Mitchum, Tully & Co. and was with Kidder, Peabody & Co. and Harriman Ripley & Co. in New York.

Named for Officers Of San Francisco Exch.

SAN FRANCISCO, CALIF.— Victor T. Maxwell, Chairman of the Nominating Committee of the San Francisco Stock Exchange, announces that Douglas G. Atkinson of Dean Witter & Co. has been nominated for a second term as Chairman of the Board of Governors. Nominations for the Board of Governors for two year terms are: Howard J. Greene of Sutro & Co. and John P. Symes of Henry F. Swift & Co.

The annual meeting and election of officers of the Exchange will be held on Jan. 12, 1949.

Lynch & Keller Directors

Blair & Co., Inc., 44 Wall Street, New York City, announces the election of Frank Lynch and C. Courtney Keller, Jr. as directors of the firm. Mr. Lynch has been an officer for several years and manager of the firm's municipal department. Mr. Keller, also an officer for several years, is retail sales manager.

Edward Dreyer Retires

Dominick & Dominick, 14 Wall Street, New York City, members of the New York Stock Exchange, announce the retirement of Edward P. Dreyer after completion of 50 years of service with the firm. For many years Mr. Dreyer has been vault custodian in charge of securities.

What Will Democratic Congress Do?

By ROGER W. BABSON

Mr. Babson discusses probabilities of President Truman carrying election promises through Congress, and concludes "real truth is that Mr. Truman doesn't know what he is going to do." As result "we have two years of great uncertainty ahead."

Everyone is asking what Mr. Truman and his Democratic Congress will do. This I will discuss in this column, although my conclusions will probably satisfy no one. Since the election William Green, the able President of the American Federation of Labor, was my guest here at Babson Park. There is no doubt but that he feels that Mr. Truman owes his victory wholly to the farmers and the wage-workers. Without doubt the Taft-Hartley Law will be modified in several ways. Certainly, employers should have the right to state their case to their wage-workers; and moreover should be obliged to take the same anti-communist oath as do the labor leaders.

Roger Babson

It must not be forgotten that a coalition, at any time, of the Republicans and Southern Democrats could hold up any legislation that the President might greatly desire. This could apply to unreasonable excess profits taxes, price controls, changes in income brackets, New Deal dreams and other legislation which would be apt to bring about a decline in general business. Hence, although there is nothing in the Truman victory which could help business, there is much which could harm business except for the influence of the Southern Democrats.

Truman and the Farmers

It is an old political slogan that "no one wants to shoot Santa Claus." Certainly, the Democratic Santa Claus has been very good to the farmers who recently have had the most wonderful years in their history. As Mr. Dewey did not make any substantial promises to the farmers, they felt it wise "to let well enough alone." As Mr. Truman is noted for loyalty to his friends, he will oppose any bills which the farmers oppose. Furthermore, the Republicans can expect no help from Southern Democrats in cutting the profits of the farmers.

Over a term of years the farmers' profits have not been abnormal. The farmers are entitled to some more good years to make up for the many very bad years that they had during the thirties and even before. No industry should be judged by the earnings of only a few years. An average of an entire cycle should be considered. Surely, on this basis the farmers are entitled to every cent they are getting and to help for some time longer. In fact, for keeping business fairly good the country is very dependent on prosperous farmers.

Truman and Russia

Another thing in which the Southern Democrats can be of no help is in connection with Stalin's attitude. He is the greatest factor in the business outlook especially in view of defense spending, foreign loans and the European Recovery Program. Truman can be a modifier of circumstances to some extent. He cannot be the master of destiny whatever his ability. This foreign situation will be further complicated by the political activities of the Veterans of World War I and World War II which activities were largely forgotten in the recent campaign.

President Truman has fighting ability, political judgment and vigorous health. It is also said that he is "honest"; but I do not understand how an honest man who is also intelligent could make the promises he did in his campaign speeches. He, moreover, appears to lack judgment in recruiting men of outstanding ability and tends to "go off half-cocked" and spring surprises which may be very dangerous. I doubt if he also fairly balances **loyalty to friends against loyalty to the nation as a whole.**

The Real Truth

The real truth is that Mr. Truman doesn't know what he is going to do any more than you who read this article. The forecasts which columnists and radio commentators make is so much wasted time. Mr. Truman will try to carry out most of his promises, but he does not know which ones he will be able to fulfill. No one else knows. Hence, the only sure thing that readers can depend upon is that we have two years of great uncertainty ahead. Whether for good or evil, I must refer you to Mr. Stalin's inner thoughts, not necessarily to what he says. All of this means that readers should use 1949 for getting out of debt, storing up reserves and being prepared for whatever happens, even though this may mean "no change at all."

Business Prospects

(Continued from page 3)

less likely, and perhaps somewhat more so, that it is about over. Business confidence was hurt by the elections and, therefore, it will be somewhat more difficult to raise equity capital; business expenditures for plant and equipment will probably be reduced moderately, and inventory policies will be more conservative. Moreover, stronger measures to combat inflation, if it should continue, are more likely to be taken under the administration we shall have than under the administration we might have had.

In my opinion, the chances of a severe decline in business in the next year or two are reduced as a result of the elections. Although social forces would compel whatever party is in power to take vigorous action to forestall a severe decline in business, I believe that the Democrats will take prompter and stronger action than the Republicans would have taken. The Democrats will be more sensitive to popular demand to prevent and relieve mass unemployment, and will be more zealous in keeping consumer purchasing power at a high level. This will be done, however, at the cost of greater control by the government over economic affairs.

Thus, there is a greater challenge than before to businessmen to prevent a "bust", unless they contemplate without regret, as I do not, substantially greater interference by the government in economic and business affairs.

The longer-run implications of the election are of the greatest significance. We learned on Nov. 3 that the swing to the left which set in in 1933 is more basic and more enduring than most of us had thought. There are three meanings of the swing to the left which I should like to comment on briefly.

In the first place, it means greater benefits to the mass of the people in the short run. There will be more social security, less apprehension and distress from illness, old age and unemployment. There will also be a higher standard of living for many in the lower income groups, if the prospect for an increase in the legal minimum wage is realized. Greater economic benefits to the people at large are much to be desired; in fact, they constitute the ultimate objective of our economic system. But they can be sought over the short run by political means which jeopardize them over the longer run.

Retardation of Long-Run Economic Progress

This leads to a second important meaning of the swing to the left, namely, the probable retardation of our long-run economic progress. This interpretation is subject to serious and sincere differences of opinion. To me, the less favorable attitude of government toward business, the greater readiness of government to control business, and the lessened respect for profits and the profit motive, all of which are aspects of the swing to the left, will tend in the long run to reduce the rate of economic progress and to reduce the total benefits which might have been available to the masses of the people.

There are, of course, defects in our economic system and many improvements must be made in the way business is conducted. Moreover, I may be wrong in my long-run interpretation. But it is my judgment that in the coming years when the country is zealously planning for the rapid improvement of the economic lot of the average and below-average citizen, we may underestimate the importance of personal qualities and economic and political policies which have been largely responsible for the creation of the amazingly high and widespread economic welfare which the people of the country now enjoy.

A third meaning of the swing to the left is the possibility of greater danger to our basic liberties. With greater control by government over economic affairs there comes also the possibility of reduction in civil and political liberties. History seems to show that when one type of liberty is reduced, other types of liberty are also threatened.

In a brief comment on these very large and complicated questions it is probably impossible for anyone to convey the proper "tone" of his ideas. I do not wish that anyone should gain the impression that the future is black. I should also like to express my conviction that there should be further redistribution of income and wealth in order that the welfare of our whole people may be enhanced. What worries me is that policies may be adopted which aim to accomplish too much too soon and by methods which may be effective in the short run but destructive in the long run.

There can be no doubt that a swing to the left is a sobering event for most businessmen and investors. How they react to it will in large part determine whether the swing will be harmful. If they become cynical, if they choose to "go back to the farm" and give up on the future of America because prospects for business profits and the accumulation of personal fortunes are diminished, the country will indeed be facing bad times. But if, on the other hand, they recognize realistically the great strength of the social forces behind the swing to the left, make their peace with these forces in so far as necessary, and at the same time recognize that no political upset can really halt progress as long as they possess the will to progress, then we can look forward with hope and confidence.

Businessmen and investors probably will have to decide whether they will work as hard and take as much risk, for less return, than they have previously expected or received. To expect them to do so doesn't seem to make sense, but it is probably essential in order to insure our economic future and, indeed, the preservation of our liberties. This requires ethical growth, the greater ability to act as individuals with reference to the general economic welfare.

Renews Proposition for Return to Sound Money

Edward J. W. Proffitt at luncheon meeting of Chamber of Commerce of State of New York gives notice of new resolution advocating return to gold coin standard.

At the luncheon meeting of the Chamber of Commerce of the State of New York in New York City on Dec. 2, Edward J. W. Proffitt of the Manufacturers and Traders Trust Company, who has been pressing for action by the Chamber to further the return of the nation to the gold coin standard, again presented the matter by stating:

Dr. E. J. W. Proffitt

"With your kind permission, I will take but a moment to refer to a former Resolution of mine on money. Next month will mark the second anniversary of the date of its introduction here. Now, it would appear desirable that I give notice of my intention, at the next meeting, if it is agreeable to the Chamber, to ask for the withdrawal of that particular Resolution, which contained a large number of technical references to existing laws and regulations, and to ask permission to submit a substitute, one shorter and perhaps less difficult to obtain approval of, before the convening of the new Congress. It will be limited to an expression that the Chamber desires the return to Sound Money (the Gold Coin standard), lest the rapid tobogganing of the purchasing power of the present managed paper dollar descend to the horrors of devaluation and repudiation.

"The Committee on Finance and Currency is following Commander Schiff's able work in a study of the whole monetary problem. It is being assisted by the recently added staff member who comes to the Chamber with an enviable record in economics and finance.

"Interest and study in the subject is spreading. Action already has been taken by other organizations here and elsewhere. During the past few months, meetings have been held in Detroit, sponsored by a prominent banker and a top notch industrialist, and also in Chicago, Grand Rapids, Fort Wayne, Mobile, Miami and San Antonio. Meetings are scheduled soon in Pittsburgh and Minneapolis, and an outstanding conference will be held in New York next month, at which will be considered the international phase of the monetary problem. Tomorrow at the conference of the National Association of Manufacturers, one of our leading authorities in the automobile industry will discuss the subject.

"The U. S. Chamber of Commerce, last month, published a valuable treatise on the "Economics of the Money Supply." It stated that its study is "based upon the assumption that the more knowledge and understanding our people have, the more likely are they to come to sound decisions." Our relations with the National Chamber are close and I assume cooperation prevails. It was my good fortune to have been a member of the group which in December 1912 in the rooms of the Willard Hotel, Washington, under the leadership of Edward Filene of Boston, Harry Wheeler of Chicago and others, if I recall correctly, planned that great organization of commerce and industry. Also I served as a member of its National Council for several years."

New York Port Authority Bonds Marketed

Halsey, Stuart & Co. Inc. and Ladenburg, Thalmann & Co. jointly head an underwriting group that was awarded on Dec. 7 $7,000,000 The Port of New York Authority 2½% Marine Terminal Bonds, First Series, due 1978. Reoffering was made at a price of 96½%, to yield about 2.67% to maturity. The winning bid was 95.0577.

Net proceeds from the sale of the bonds, the first installment in the series, will be used to provide funds for capital improvements to Port Newark, N. J., and for payment, with interest, of $2,000,000 Port of New York Authority Marine Terminal Notes.

The bonds are redeemable at 103% beginning on Nov. 1, 1953 and thereafter on or before May 1, 1958; at 102% thereafter and on or before May 1, 1963; at 101% thereafter and on or before May 1, 1968; and at 100% thereafter to maturity. Payments are required to be made into the Sinking Fund for the bonds, starting in 1953, at a rate which on a cumulative basis will be sufficient to retire all of them by maturity.

In the opinion of counsel, the bonds are eligible under existing legislation for investment in New York and New Jersey for state and municipal officers, banks and savings banks, insurance companies, trustees and other fiduciaries.

The Port of New York Authority, created in 1921 by New York and New Jersey, is authorized to purchase, construct, lease and operate terminal and transportation facilities within the Port of New York District and to make charges for their use and for such purposes to borrow money upon its bonds or other obligations. The Port District comprises an extensive area in both states, centering about New York Harbor.

Harry R. Sime Now With Crowell, Weedon & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF—Harry R. Sime has become associated with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Sime was formerly with Edgerton, Wykoff & Co.

Edward A. Meill With Courts in Atlanta

(Special to The Financial Chronicle)

ATLANTA, GA. — Edward A. Meill has become associated with Courts & Co., 11 Marietta Street, N. W., members of the New York Stock Exchange. He was formerly with Spencer Trask & Co., New York City.

Speakers See Economic Forces Government Controlled

Philip Cortney, President of Coty, Inc., tells American Statistical Association prosperity will continue under huge armament and Marshall Plan expenditure, but deflationary forces are bound to assert themselves in the end. Robert L. Heilbroner points out since government created boom, it can also break it.

Speaking before the New York Metropolitan Chapter of the American Statistical Association in New York City, on Dec. 2, Philip Cortney, President of Coty, Inc., told his hearers that as long as the government continues huge expenditure on armaments and as long as we have the Marshall Plan, our economy is bound to remain prosperous.

Mr. Cortney, in his talk, drew attention to the nature of the deflationary forces which are bound to assert themselves some time

Philip Cortney

Robert L. Heilbroner

after the end of a big war. In particular he stressed the necessary readjustment in the general level of prices once the monetary inflation of war is stopped, and also the unemployment due not to cyclical causes but to the distortions created in the economy by the war. Of course, with the present monetary system the government can, to a certain extent, postpone the day of the necessary adjustment. Mr. Cortney explained that while this view holds a partial validity, it assumes that fresh monetary means are injected into the economy by the monetizing of budgetary deficits.

Mr. Cortney, in the course of his remarks, referred to a fundamental distortion which exists between various segments of the economy. The heavy industries, the durable goods, and in particular automobiles, are still in a seller's market, and therefore are able to pass to the consumer any increase in costs. The railroads and utilities base their rates on a cost basis. The prices charged by the farmers are protected by the government. Most of the soft goods industries, however, are in a buyer's market. Their profits are squeezed by costs which are affected upwards by the heavy goods industries. In other words, the soft goods industries are practically in a seller's market for what they purchase and in a buyer's market for what they sell.

In such a distorted economy, Mr. Cortney contends, it would be a calamity if we had a fourth round increase in wages, which only the heavy industries can afford to pay without risking bankruptcy. It would also be fundamentally wrong to increase the normal Federal tax on income of corporations. If taxes have to be increased at all at this stage of the economic juncture, said Mr. Cortney, "it is more in line to reinstitute an excess profits tax, much as I object to its principle."

Mr. Cortney concluded his address by giving some information on the European situation and its impact on the American economy. He stressed that the Marshall Plan will not prove a success unless means are found to make the European currencies interconvertible.

A similar opinion was expressed by Robert L. Heilbroner, Economist of Stein, Hall & Co., Inc., who stated that "it will be the government which basically assures the boom—and which could break it."

"We have to approach an appraisal of the coming year with a clear realization that the 'automatic' business cycle is somewhat a thing of the past," Mr. Heilbroner continued. "Whatever may have been the underlying causes of our industrial fluctuations—credit, capital expenditures, or what have you—these prime movers no longer operate in a free-wheeling economy. The spontaneous up-and-down pressures which our system does still generate are today cushioned or offset by the increasingly important role of planned central economic power. It is the government more than any other single factor which sets the economic tone of the nation—through its expenditures, its monetary manipulations, its legislative and administrative decisions.

"This means that the old boom-bust pattern has been replaced by an uncertain prosperity which may be prolonged or cut short largely by governmental decisions. The task of the economic predictor is thereby made more difficult; not only must he assay the strengths of the upward and downward bearing economic forces, but he must also make up his mind on the "iffier" questions of how the government will probably act and how its actions will affect business.

"My own feeling is that we are due for a year of cross-currents. In agriculture, in many consumer goods industries, and in a growing number of industrial fields, the prospect is for a slackened tempo of business. We enter 1949 with the realization that the buyer's market is back—full blast. Because we have become accustomed to a seller's market (and because breakeven points are high) we do not welcome this change. But it is reassuring to compare ourselves with 1940—asset-wise, production-wise, debt-wise.

"Specifically 1949 looks like a year of good over-all retail sales with an increasing number of soft spots; high farm income with less than our last two years' record takes, busy production for most plants but without the backlogs which have underwritten capacity output since 1946. Although over-all industrial production may hold, our housing starts, our plant and equipment expenditures, and our export balance may decline. Consumer price levels should level off or even drop slightly.

"Frankly, without a strong government expenditure program I would have little hesitation about warning of a recession with this many danger signs on the horizon. Traditionally booms end when capital expansion ends. But the addition of the government to the picture swings the entire emphasis back around to a more optimistic quarter.

"Everyone knows that the government will be stepping up its expenditures—roughly from $38.6 to $43 billions. What is less commonly realized is that whereas the government was working on a budget at the beginning of 1948 which would absorb $12 billion from the national income stream into debt retirement, in early 1949 the government will be operating approximately on a break-even basis. Receipts from the public will be down by $6 billion, expenditures up by over $5 billion. In other words nearly $12 billion more will be available for spending by the public."

Railroad Securities

At this time of the year it is customary to talk and write about the influence on the market of tax loss selling. This may have been somewhat of a factor in the past week or so in some instances. Far more important this year, however, has apparently been selling by speculators and investors to establish taxable gains. It is pretty well taken for granted that there is no possibility that taxes will be reduced next year, or that there will be any change in the capital gains tax beneficial to security holders. Rather, if there is any change in personal Federal income taxes it is assumed that rates will be raised, or the period for holding to establish long-term gains will be extended beyond the present six months. Security holders, therefore, have been inclined to accept profits in the current year, the tax rate for which is at least determinable.

One of the railroad securities that has apparently been subject to considerable long term profit taking is Denver & Rio Grande common stock. At about the time the stock was initially issued in the second quarter of 1947 it was selling around 6¾. It closed last year at 18½ and sold to a high of 39¾ in 1948. At the time of this writing it had retreated to 27½. In the meantime, two dividends of $1.00 a share each have been paid on the stock, considerable further debt retirement has been accomplished, and earnings have continued highly satisfactory. As a matter of fact, at recent levels the stock has been selling at less than two times probable reported earnings for the current year.

Month by month reported earnings during recent periods have not made too favorable comparisons with a year earlier. September net income, before funds, was $356,730 ahead of a year ago on a rise of $1,049,466 in gross revenues. In October the year-to-year gain in net amounted to only $46,958 in the face of a gain of $1,223,975 in total operating revenues. Actual operating results, however, were far better than would be indicated by these net figures, with the year-to-year improvement in real earnings obscured by bookkeeping items.

Denver & Rio Grande Western was one of the few roads that during the war period set up reserves for deferred maintenance. For sometime now it has been crediting the maintenance accounts with reversals on account of deferred maintenance. The total of such credits for the 10 months through October amounted to $2,186,278 compared with credits of $1,284,234 for the like interval a year earlier. While the credits for the full 10 months have been considerably higher than in the 10 months through October 1947, there has been a sharp reduction in the rate of such accruals in most recent months.

For the month of September 1948 alone, the maintenance credits amounted to only $70,622 and in October they had been reduced to $33,913. Credits in the same months of 1947 amounted to $281,340 and $204,785, respectively. Moreover, in October 1948, there was a special debit of $86,439 representing adjustment of maintenance of way inventories. Finally, 1948 figures have been distorted by charges to "Miscellaneous Deductions from Income" representing cut backs of revenue from Lend Lease and Maritime Commission traffic for the years 1942-45, inclusive. Had these special credits and charges not been made in either year the October 1948 net income would have been $414,134 higher than a year earlier.

As reported, the company showed net income, before funds, of $6,314,868 for the 10 months through October 1948, compared with $3,337,475 a year earlier. Allowing for preferred dividend requirements these earnings work out to $14.10 and $5.64, respectively, on the common stock outstanding. Eliminating extraordinary income charges and debits these common share earnings would have amounted to $11.30 in the 1948 period compared with only $1.98 a year ago. Reported earnings for the year will naturally depend to a considerable degree on bookkeeping policies in the last two months. So far as real earnings are concerned, however, they can hardly run much, if any, below $14.00 a share.

Public Utility Securities

New England Gas & Electric Association

The company, one of three New England holding companies, was formerly controlled by Associated Gas & Electric. It is an "association" formed under a Massachusetts declaration of trust, but trustees are elected annually and voting power is not tied up over a period of years as with some trusts. With revenues of about $25,000,000, it is about one-quarter the size of New England Electric System.

After SEC proceedings lasting some years, the company recapitalized April 2, 1947; 311,000 "common shares of beneficial interest" were sold through a First Boston Corporation syndicate and some other stock was distributed to the old preferred stockholders. Present capitalization consists of $22,425,000 sinking fund collateral trust 2⅞% of 1967, $7,762,000 4½% convertible preferred shares (each $100 share convertible into seven shares of common) and 1,246,000 common shares with par value of $8.

The stock is currently selling over-the-counter at about 10½ to yield 7.6%. This is about eight times the current consolidated share earnings of $1.30. The parent company earnings are $1.14, of which about 22 cents is used to retire bonds and 80 cents is paid as a dividend. Pro forma consolidated share earnings over a period of years are as follows:

1947	$1.20	1942	$0.99
1946	1.37	1941	0.96
1945	1.28	1940	0.97
1944	1.07	1939	0.94
1943	1.18		

Eventually (to conform with the Holding Company Act) the company may have to dispose of its Maine and New Hampshire subsidiaries (by sale or distribution to stockholders), which would reduce consolidated earnings about 11 cents and parent company earnings about 6 cents. If sold, the proceeds would be devoted to bond retirement. Since earnings of New Hampshire are relatively low at present, sale in the near-term future is considered unlikely.

New England Gas & Electric has not been affected by the severe droughts of 1947-8 which have depressed the earnings of New England Electric System and other companies, since practically all of its electricity is steam-generated. However, 1947 operations were handicapped by an accident to a new generator which reduced share earnings about 20 cents. 15,000 kw. capacity will be added early in 1949 and other units will be added in 1951. Savings of about 18 cents a share in 1949 from the new unit will serve as a buffer against increased wages, etc.

Over one-third of system revenues are from sale of manufactured gas. Cambridge Gas Light (the most important gas unit) has pioneered in the new method of substituting 100% oil gas for water gas. The new equipment was installed in the summer of 1947, but the full benefits were not immediately obtainable. Heating content of the gas was raised from 528 btu. to 951 btu., an increase of 80% in sales capacity without changing the physical set-up, at a very small increase in plant cost. In billing for the new rates at Cambridge, meter readings are merely multiplied by 1.8 to allow for the larger btu. Eventually the company hopes to obtain some natural gas from Texas for mixing with manufactured gas, but this is probably four or five years away, and no estimate of possible savings has been attempted. A gas rate increase was granted last March.

The company has financed much of its construction program by borrowing from its cash "plant replacement" fund and through a $12,000,000 bank loan, of which $5,000,000 is still available. During 1949-52, the company will need about $25,000,000 construction funds, which will be obtained through $3,000,000 depreciation funds, $15,000,000 subsidiary financing and $4,000,000 common stock to be issued by the Association. The parent company cannot sell any additional debt, since its debt ratio is over 60%. Under a commitment with the SEC the company, beginning next year, will have to sell as part of its financing program 124,600 common shares in any one year in which new capital requirements equal or exceed $5,000,000. On this basis, the company in the next three years probably will sell about 370,000 new common shares for expansion (through investment in capital shares of the various subsidiaries).

In Massachusetts the state commission allows a fair return of 6% on the rate base, which is taken as equity capital (bond interest being treated as an expense). In 1946, about 6.6% was earned on the rate base, but at present the amount is understood to be around 5.8%. Since only about 3% or 4% is probably being earned by the gas department, there is room for some increase in earnings without regulatory difficulties. The recent statement of the Governor of Massachusetts that electric rates are too high in that State probably does not have any adverse implications for the Association. Its rates in Cambridge are lower than in Virginia (where the coal that is used is mined), and they are the lowest for any Massachusetts company; New Bedford is second. The average domestic rate in Cambridge is about 3 cents.

A Reversion of Economic Uptrend

(Continued from page 2)

down to $15 million. The military would like to go to at least $25 billion. In any event, it cannot be otherwise than costly if we are to be really prepared for war, and if we are to impress upon Russia that we are prepared, Congress is going to be asked to support a lend-lease plan, one part of which would undertake to guarantee enough American arms to Western Europe to hold back the Russians until heavy U. S. forces arrive. And since the Russians seem to be getting their way in Asia, it is now proposed to provide huge amounts of war material to save China as well. All of this must be paid for, most of it at least from taxes. Necessary though these monies may be, such an effort is not industrially healthy. Military goods are highly specialized, they are not consumer goods, nor can the materials that go into them be used to satisfy consumer demand. Some companies may make profits from these federal expenditures—most companies will not.

Much the same thing is true of stockpiling. At present prices it looks as though this program will cost nearly $3½ billion, of which amount Congress will still have to supply over 60% of the total. In addition, the State Department is reported to favor a stockpiling program that will guarantee certain strategic materials, not only for ourselves, but for our allies as well. It would appear that Mr. Stalin, not Mr. Truman, will determine the major part of our budget for us.

Of course, quite aside from the effect of all this on the national budget and taxes, is the question of what this does to the available supplies of material for industry. The Munitions Board claims the impact will be "relatively slight" (whatever "relatively" means). It goes on to point out it is cognizant of the danger to industry of trying to attain its objectives at too fast a pace. But as George Renard, Executive Secretary of the National Association of Purchasing Agents, has said, "Buying scarce materials at the top of the market for some future emergency offers little opportunity for the development of sound purchasing inventory policies." And the Munitions Board, knowing that 75% of its goal is not even "in sight," asks that 20% of the nation's annual consumption of the 67 materials listed be set aside for stockpiling. The board asked importers and producers for 10% allocation and got nowhere. The Department of Commerce tried to get 5% with the same result. The National Association of Manufacturers says 2% is enough.

And the Munitions Board itself adds, "In response to the increased need for certain scarce items to bring the stockpile into balance, it may be necessary to have leeway from rigid adherence to the pricing policies followed heretofore, which was 'to buy materials for the stockpile at or below current market prices.'"

Two plans for increasing output to meet this demand are in prospect, either or both of which may be put into effect:

(1) "Higher-than-market-price" agreements might be made with marginal producers. This would amount to a subsidy similar to that in effect during the war for some materials.

(2) Producers already at peak production might be offered an "added - facilities - amortization" plan. This would enable the producer to add to his facilities, turn over the added output to the stockpilers, and pay off the cost of the new facilities out of his receipts from the stockpilers. In other words, a producer would add to his capacity, at no cost to himself, in return for promising definite amounts to the stockpile.

Military expenditures and those for European Rehabilitation thus constitute two of the major items in our federal budget. I need not list others. It is estimated that right now we are adding to the federal payroll at the rate of $15,000 people a month. We may well spend a total of $1,630,000,000 to support wheat at $2, corn at $1.45, and cotton at $1.50, to say nothing of potatoes, peanuts, tobacco and rice. Our Federal Government has placed price floors under certain so-called "basic" agricultural commodities and they can be placed under many more without further congressional action. So important is the part played by the government in the markets of the country today that one of my friends in the flour business half facetiously said, "To appraise properly the wheat market for 1948, the qualities of Jim Farley and Dr. Freud are more valuable than those of a grain statistician. If Jim Farley were employed by our company today we would completely ignore crop news. He would put himself in the place of the government agents and ask what he would do in their place."

So if there is any fact equally clear with that of Russian Communist objectives and program and of our only means of stopping that aggression, it is that the United States Government is a senior partner in every American business—and will remain so for years to come. It should not be unreasonable, therefore, to stress that every businessman should give a little study to our federal budget. It is not an easy thing either to read or to talk about. Too few people have been interested in it or have made any attempt to understand it. And so long as it remained within manageable limits, it really did not make much difference. But those days are past—today it does affect business in many, many ways, and the public indifference to it is a most disturbing thing, particularly in view of the current importance of the budget.

The President's budget, as submitted to the last session of Congress, amounted to something over $37,700,000,000. For 1949, his estimate exceeds even this figure by $2 billion. Of the 1948 figure, Mr. Truman pointed out that four-fifths of this are the "costs of war, the effects of war, and our efforts to prevent a future war." He went on to say that only 21% of our expenditures finance the government's broad programs for social welfare, housing, education, agriculture, transportation, and general administration. But, we may also add that this "only 21%" of $40 billion is $8 billion, or almost as much as the total cost of government in the largest spending year of the 1930's, and more than twice the average of the 1920's. A soldier's pension, instead of a bonus, is about to be demanded by a powerful veteran's group, calling for a pension for all veterans of both world wars, regardless of other income starting at $60 a month at 55 years of age and reaching $75 a month at 65 years of age. This would add $1.2 billion immediately and amount to nearly $7 billion by 1980. The Federal Security Agency is asking for a health and medical program whose cost it has refused to estimate, but which has been placed at between $3 billion and $5 billion when in full operation. Total spending in the current fiscal year is likely to reach over $43 billion as against $9 billion in 1939.

"If anyone wishes to know why his taxes have climbed so high since prewar days, let him consider the national debt. This now stands at approximately $255 billion, or between 16% and 20% of the national income. Such a formidable array of numerals is almost beyond comprehension. To bring it down to earth, the debt amounts to about $1,770 for each person in the country. By comparison, the debt per capita was $308 in 1939; $240 in 1919, after World War I.

". . . It is a matter of first importance that the debt should not get out of hand in the future. Historically, the world's most virulent inflations—those ending in the complete wreckage of the value of money—were accompanied by a succession of badly unbalanced national budgets.

"All this ties in with the current problems of Federal spending and tax reduction. We cannot always count on budget surpluses, and it is certainly sound policy to reduce the debt substantially during periods of high national income like the present.

"No one wants to cut essential spending for national defense or otherwise. To reduce unduly expenditures for European aid or for our military establishment at this time would be folly. But many things which seem desirable to this or that group may not actually be essential. If we wish substantial tax reduction, furtherance of the debt retirement program, and assurance of a continuing sound budget position, we must be prepared to halt the tendency toward rising governmental expenditures."

Now, the President's Council of Economic Advisors talks a lot about the need for anti-inflation measures, but an Administration that believes that prosperity had something to do with its return to power certainly does not want a general price deflation or see government bonds decline with the government debt what it is and government spending what it is. So we may well conclude that, whether we like it or not, prices will never go back to where they were in 1940. In fact, one of the surest predictions one can make is that when prices start sliding in earnest and business profits show a tendency seriously to contract, the government—as far as it is able—will promptly change its present policy and use its influence to keep prices up. And it can do this in a variety of ways. It can give its support to a fourth round of wage demands; it can further reduce income taxes in order to enable consumers to have more money for goods, or reduce business taxes to encourage continued expansion; it can relax the threat of credit restrictions; it can speed up the foreign aid program. It could even, as a last resort, turn to pump priming, but it is well to bear in mind that in the 30s, it was comparatively easy to go into debt, to start new projects, and to try out new ideas. If forced to somewhat similar attempts again, however, with the debt where it is, there will be less leeway for experiment. But any one of these things—and certainly all of them combined — would undoubtedly keep prices from falling as soon or as far as they might. True, such action would only delay the inevitable readjustment; it might ultimately result in a more serious collapse than would otherwise come; it would still further accentuate the unbalance among the various elements in our economy. But the immediate end of preventing a decline would, for the moment, probably be achieved. These things are in the hands of Congress and the Administration, and I for one refuse to forecast what either of them will do.

We have come a long way from our original two questions—one of which had to do with Russia, the other had to do with what's ahead for business. It should be clear by now—if indeed there ever was any doubt about it—that these are not really two questions at all, but one. For unless business in this country is reasonably good, thus keeping our internal condition healthy, we can neither do our share toward putting Europe on its feet nor be adequately prepared to defend ourselves when Russia takes advantage of despondent Europe. It is another one of those basic facts which I have been trying to stress—that one of these essentials to economic recovery in Europe is the ability to meet and master any domestic crisis that may arise in this country.

How good is business in this country? Almost everyone — and note that I said "almost"—says that it is extremely good and will continue so for at least another year.

A "Wall Street Journal" survey of 155 companies in 15 industries shows aggregate third quarter earnings "a modest 8.3% ahead of the second quarter and a sweeping 41.7% above the third quarter of 1947. The Commerce Department reports a $6 billion output above the previous quarter and $11 billion above the rate in 1948's first three months. Personal income is reported to be moving to a new high in the third quarter of this year, accompanied by a substantial increase in personal savings, but with a reduction in personal consumption expenditures. The physical volume of production, as measured by the Federal Reserve Board index, is nearly double the prewar volume. So one can go on cataloging the prosperous signs. The business press is full of them, partly because the facts as stated are usually true, partly because they make pleasant reading, and partly because of a hope that by overlooking the less optimistic signs, they likewise prevent the development of those psychological fears that in themselves contribute to a decline. All looks so good—at least on the surface. But we need to remind ourselves that in 1920 and 1929 all looked rosy on the surface, too, and businessmen were most optimistic right up to the point where the collapse occurred.

To me, there are two inescapable facts to be kept in mind throughout all of this discussion. Fact number one is the importance of keeping American business in a reasonably healthy state. The second fact that is reasonably clear to me is that beneath the surface, business in this country is not fundamentally healthy. Economic readjustments, so long overdue, are not being made, and the longer they are postponed, the more serious they are likely to be when they are made.

For instance, a textile mill in New England closes for lack of orders. A number of companies in the Northwest—ranging from manufacturers of watches to those of heavy machinery—are laying off workers. A midwestern railway cuts service 10% because of a drop in passenger traffic. A taxicab company in a large Eastern city withdraws dozens of cabs from the streets for the same reason. Telephone collections in some sections are definitely down. An airplane company in the East offers to carry women and children on Mondays, Tuesdays and Wednesdays for half fare when accompanied by a full fare passenger. A plane manufacturer makes drastic cuts in an effort to save hundreds of thousands of dollars in operating expense. The Federal Reserve Board reports that one of four families admits spending more than their income even in 1947. Sales of liquor, furs, luggage, and toilet goods are down. The President of the American Bankers' Association says that the inflation has about run its course. The paper industry is definitely off. Some manufacturers of rag paper are offering discounts to spur lagging sales. Price cutting has broken out in the corrugated box industry. A large publisher says, "We are not building up our paper stocks. We are trying to keep a low inventory position for the price break that is sure to come." The machine tool industry appears to be in the doldrums. Farmers' income is down about 8% this year. Many textile companys are showing earnings substantially below those of a year ago, and in some segments of the industry, prices have declined and production curtailed. The "Wall Street Journal" reports in November, "The buyer's market which crept up on cotton last Spring and on wool earlier this Fall has now come quietly to rayon fabrics." A University of Michigan study reports that people are less optimistic, and the Federal Reserve Board says that consumers have shown a tendency to save a few more pennies from the dollars of income they receive.

New business firms started in the first six months of this year numbered but 179,000, as against 238,000 in the same period of 1947, and discontinued businesses rose from 86,000 in the first half of 1946 to 136,000 in the first six months of 1948. In some industries the number of companies that went out of business exceeded those entering. While passenger auto output still lags far behind demand, truck production has about caught up. The supply of farm equipment is catching up with the demand, and the sales Vice-President of the Oliver Corporation reports, "Our industry is getting back to a buyer's market, product by product and territory by territory." Many shoe manufacturers are "slamming the brakes" on production, realizing that in the first nine months of this year they have made millions more shoes than have been sold. Thousands of their employees are working part time; others face lay-offs. Men's worsted mills are far from active.

Retail furniture sales in October were 7.7% and in November 12% below the corresponding months of 1947. Furniture manufacturers received fewer orders in October than in September, a contra-seasonal trend. Cancelled orders were above normal.

Sales in basement stores of department stores in 1947 were $14.8% above 1946, while the main store sales were up only 4.5%. This same trend has continued into 1948. In the first five months of this year, the gain over the same period in 1947 was 9.9% in the basement stores as against 3.4% in the main stores. Charge accounts dropped by $169 million, nearly 5% greater than the seasonal norm. Over-all retail sales in department stores through November have fallen behind last year by between 6% to 9%, and in November, for three weeks in a row, were below those of a year ago.

Take a look at inventories. The McGill Commodity Service reports:

"It is important to note that despite the terrific volume of industrial activity, **manufacturers' inventories** since the end of the war have increased steadily without any interruption. The book value on Sept. 1 of manufacturers' inventories was $30,100,000,000, as compared with $27,051,000,000 a year earlier. Meanwhile, wholesalers' inventories as of Aug. 1 were up to a new peak of $8,048,000,000, as compared with $6,699,000,000 for the same date last year. The significance of this comparison is that more goods are being turned out than actually sold."

And "Business Week" adds its comment:

"The over-all value of nondurable goods factories stocks was virtually unchanged in September. But the **value of the finished inventory**, that hadn't moved, was up $133 million. This gain was obscured in the aggregate by a reduction of $126 million in stocks of purchased materials."[1]

The earnings of Federal Reserve Bank members were $292 million for the first half of 1948. They were $303 million for the last half of 1947, and $350 million

[1] **"Business Week", Nov. 27, 1948, p. 10.**

in the first half of 1947. Industrial and commercial failures for September were 398 according to the last issue of the "Survey of Current Business." A year ago they were 292 for the same month.

Or turn to prices. The Bureau of Labor Statistics index of 28 sensitive commodities stood at 330 (based on 1939 as 100) on June 12 of this year. It declined steadily to Oct. 2 and has been around 306 ever since. The farm products index, which stood at 200.3 on June 26, was reported as 172.2 on Nov. 20.

This brings us around to a matter of manufacturers' profits. The "United States News," in a recent issue, said, "The profit boom of United States manufacturers is showing the first clear signs of trouble." It goes on to say that although manufacturers' total profits are up, the profit margin has definitely declined and is getting spotty. Some manufacturers, especially small ones, have seen their profit shrink almost to the vanishing point. Classified on a basis of total assets, profits per dollar of sales were definitely down for the first of this year for all classes except corporations with assets over $100 million. The analysis concludes that even a leveling off of prices without any price slump would have the effect of reducing manufacturers' profits. The rising values of inventories have been accounting for about 25% of after-tax corporate profit.

Suppose we look at construction: Investment in capital equipment is an index always to be watched, not only because of its volume, but because it constitutes some measure of the judgment of business as to what the future holds and because of the indirect effects of its curtailment upon employment and prices. Business spent last year something in the neighborhood of $15 billion to $16 billion on its planned postwar plant and equipment program. It plans to spend a similar amount this year. But yet over 64% of the program for initial postwar rehabilitation is now completed, and by the end of 1948, that program will be 85% complete. And for the first time since the war, plant and equipment expenditures for the third quarter of this year are estimated to be below those for the second quarter; so far as manufacturing and commercial enterprises are concerned, they will spend less in the fourth quarter than in the third. Evidently the plans for such outlays are being completed, which, coupled with the high cost of construction and the fear of overexpansion, will make for definitely lower investments of this sort in 1949 as compared with 1948.

So while construction as a whole will probably run ahead of 1947 in dollar volume, the physical volume will not show comparable increases. Industrial construction, which has been declining for months, is expected to slip still more. Public construction (and public utility construction) will probably rise sharply—perhaps as much as 24% —but remember that all public construction must be paid for from taxes and bonds, and such expenditures fall in the same category as most other governmental expenditures so far as the effect on the general economy is concerned.

The general feeling among builders and real estate men is that even the housing market is showing signs of weakness, which is not to be wondered at when building costs are 13% higher than a year ago and double what they were in 1939-1941. Prices must come down to keep residential construction up, and with materials at present prices and the unions showing no inclination to cooperate, the outlook is none too good. As one evidence, **"Business Week"** says:

"Although construction booms, builders watching the market know that the first great postwar rush for places to live is playing out. For one thing the time required to sell both new houses and old is increasing. Moreover, while the sales of new houses have gained this year over last, purchases of old houses showed no marked increase. Also, the building of new houses has just about caught up with the number of new families setting up housekeeping."

Many real estate operators are becoming seriously concerned about the ability of veterans and others to meet their mortgage payments in the months ahead. Building and loan associations are tightening up on credit, reducing the amount they will lend and increasing the interest rate.

There are those who argue that, quite aside from residential and industrial construction, so long as the steel and automotive industries are going strong, nothing serious can happen. They may be right, but we can be misled by the **automotive reports.** We should not forget that no matter how far behind the estimated demand the automobile industry may be in passenger cars, if consumer income fails, cars will not be sold, especially at present prices. Trucks will not be needed in such large quantities either if business declines.

In this same vein, a commentator had this to say only a short time ago:

"The interesting side of the Detroit outlook right now is the increasing regularity with which concern is expressed over the size of the automobile market ahead. None of this concern comes from the automobile companies themselves — they continue highly optimistic. It emanates from the curbstone analysts and from observers who pride themselves on the little more detachment than is shown by the company people.

"Here are the statistical factors at play in the situation:

"(1) Vehicle production since the end of the war has amounted to nearly 13 million units—enough to sop up all the demand based on stark need, and much of the 'desire' kind of demand.

"(2) Prices have risen close to double prewar levels, eliminating untold numbers of marginal buyers.

"(3) Reinstatement of credit curbs in recent weeks has intensified the purchase difficulties of the lower income buyers.

"(4) Where auto companies were estimating industry backlogs of 15 million or so cars at the end of the war, the estimates have now tapered to some 7 million at the outside.

"Add this all together, and it implies a far-from-certain base of car demand [and thus, it would appear that automotive business, like construction, is not all rosy]."[2]

Now all of the things I have just been saying would appear to present a pretty gloomy picture. I have referred to them for just one purpose—not because I look for a serious depression next year, for I don't, but to point out that all is not as well with business as some of us are prone to think. Basically, a readjustment is called for, and the sooner we can complete it, the better. To a very real degree this readjustment is even now underway. It is a good thing that this is so. But for reasons I have indicated, I doubt if a normal adjustment will be carried as far as it should go, and unless substantially further progress is made, the introduction of still further strains and stresses can only aggravate an unhealthy situation.

It is argued that with governmental support of the economy through the Marshall Plan, through military expenditures, through the support of agricultural prices, the guarantee of bank deposits and certain mortgages, and other measures of various sorts, no real depression can come. But there are limits even to governmental support, and surely business can scarcely be called healthy if its activity is supported primarily by government orders or by governmental price support. Nor can it be considered sound if everyone contributes his full share toward fanning the flames of inflation both by spending all he makes and by seizing every opportunity to make all the profits he possibly can "while the getting is good." On the other hand, we cannot check inflation merely by talking about it, nor by isolated cases—usually well advertised—of holding the price line. Nor can we check it, apparently, by trying to persuade the ultimate consumers voluntarily to buy less and cheaper goods. Obviously, too, it cannot be stopped by pouring additional spending money through such devices as personal income tax reductions, and bonuses, and so-called "benefits" of one sort and another. These may be good politics, but they usually are most questionable economics. Inflation can only be checked by taking more strenuous measures than I suspect the Administration will accept, namely, more courageous limitation of selective spending, curbs on credit, and heavier taxation on personal and other incomes.

I should like to repeat what I said at the outset: that I am no prophet. The future may very well hold something quite different from what I think the signs seem to indicate. Be that as it may, I should like to stress with all the earnestness at my command that any feverish activity in the business world over 1949 or 1950 that is based **primarily** on the expenditure of public funds, regardless of the purpose and irrespective of how well those monies may be spent, is going to be basically unsound and conducive to a most unhealthy condition in our economy. I fear those business analysts who look forward with optimism and complacency to what they choose to call "good business," and who very generally argue that no substantial decline can come because of foreign rehabilitation efforts, our military expenditures, or on artificial price supports, seem to me to fail completely to appreciate the significance of what they are saying. They could very well be right in their forecast as to a high level of industrial activity. But if they are right for the reasons they give, then our future may be even darker than if they were wrong. There is only one sound and permanent basis for what we term "good business." That is in the production, distribution and consumption of goods required by a world at peace; goods created by industrious, hard-working, conscientious men and paid for by those same men out of the rewards for their effort. It follows that if we must rely, not on our own efforts, but on Federal expenditures to keep our economy moving, we are building our house on the sands, not on the rocks. If the relationship between demand, supply and prices is out of line, the remedy does not lie in temporary and artificial support of some particular segment. Artificial stimulants are sometimes necessary, but they seldom, if ever, cure a patient.

Please do not misunderstand me. It may very well be true that many of these very heavy Federal expenditures may be necessary. They may prevent or defer that greatest of all disasters—a third world war—which might well bring in its train a more serious catastrophe than an immediate return to a sound domestic economy. Reasonable price floors under basic commodities may or may not be wise. They are at least debatable. A scanadously wasteful expenditure of money, even for justifiable objectives, is a violation of every sound principle of good procurement, to be explained only by ignorance or carelessness on the part of those so engaged.

Surely, I have said enough to make clear that merely because our Federal Government spends huge sums of money in 1949 is no guarantee that we shall enjoy healthy and prosperous business in the days ahead. All of which is another way of saying that those whose business it is to forecast—or who forecast whether it is their business or not—should, when they say 1949 and 1950 cannot be bad because of public expenditure, also point out that 1951 or 1952 could be worse than anything we now contemplate. They should make clear that the reasons why it will be bad may be the very same reasons that they count on to make 1949 good.

Of course, the thing each of us would like to know is when the readjustment will hit my company and how hard. And, of course, I cannot give you the answers to either of these questions. To me it is clear that the upward trend has already reversed itself—when it will hit your particular company depends upon what industry you are in and upon your position in the industry. The answers to the second question—how hard will we be hit when the winds really begin to blow—must also be partly in the realm of conjecture.

But we need to recognize as citizens and as businessmen that neither Congress nor the Administration, whatever either may have done or may do in the future, is entirely responsible for what has happened in the past or may happen in the days ahead. "The fault, dear Brutus, lies not in the stars but in ourselves, that we are underlings." So it needs no argument to prove that we should put our corporate affairs in the best shape we can. Such a move ought certainly to start with a clear recognition of where we are, not blinding ourselves to the probable future, nor being misled by surface indications. Starting with this understanding, we may the better chart a course. Suppose each of us, for example, assumed simply for purposes of analysis, that business in the United States did drop off substantially in 1949. What effect would that have on our particular business and, what is equally important, what should we do to get ready for it? Regardless of whether a break came on this particular date or on that one, we should be prepared to meet the decline if it came. Do we have reasonable liquid financial resources? Are we keeping our inventories of in-process and finished goods down to reason? Are we exercising due care in the extension of credit to customers? Is our labor and personnel situation in as good shape as we can put it? Are we exercising conservatism in planning capital expansion? Are we insisting that the sales organization plans and estimates—keeps its enthusiasm and its optimism within reasonable bounds? Have we carefully scrutinized our accounting practices, with proper regard to an effective application of budgeting, adequate and scientific manufacturing cost control, and control over selling and promotional expenses? Unless we have done these things, we surely are remiss. And the time to do them is now, not if and when a depression of greater or less severity hits us. True, there are some of these things that should have been done yesterday that cannot be done today. But, likewise, there are others that we can still do today that we will not be able to do tomorrow. But so, too, there are some very distasteful things we may have to do tomorrow if we do not make the needed moves now.

I must close. We are living in a critical time, for it is a time in which we still have a chance to prepare for the grave uncertainties that lie ahead, both foreign and domestic. I do not underestimate the extreme danger that lurks in the field of international relations, nor our own outstanding responsibility for dealing with it effectively. The situation abroad is most serious. But believing this, I also believe we need to dedicate ourselves to keeping business on this continent on an even keel. Unless we can do that, then most of what we do abroad will go for naught. These present months and those immediately ahead are critical here at home, within our own backyard. Our first and greatest responsibility is to get our own house in order—in our nation and in our individual businesses. These things we can and must do. The power to do them rests primarily within ourselves. Whatever there is to be done beyond these things—and it is much—will then rest on a firm foundation.

[2]"American Machinist," Oct. 7, 1948, p. 128.

Merrill Foundation Makes Gift to Wharton School of Finance

PHILADELPHIA, PA. — The University of Pennsylvania's Wharton School of Finance and Commerce has received a gift of $100,000 from the Merrill Foundation for Advancement of Financial Knowledge, Inc., New York, it was announced by Harold E. Stassen, President of the University.

Winthrop H. Smith, President of the Board of Trustees of the Foundation and managing partner of the investment firm of Merrill Lynch, Pierce, Fenner & Beane, presented Mr. Stassen with the check this afternoon.

The fund provides for a nationwide, three-year, study of the structure and operation of over-the-counter markets in the distribution of securities, covering not only the original underwriting of new issues of securities, but also the resale markets. The study will also attempt to appraise the trends in security trading over the past 20 years, with particular reference to the major factors which have affected the security business and the present status of that business in our economic system.

The study will be made under the direction of Dr. G. Wright Hoffman, Professor of Insurance and Marketing at the Wharton School. Associated with him in the project will be Irwin Friend, Director of Business Research in the U. S. Department of Commerce, Washington, D. C., and Willis Winn, Instructor of Finance at the Wharton School.

Working with the research staff will be an advisory committee of 10 members, five drawn from the security field and five from academic ranks. Serving on the committee will be:

James Coggeshall, President of the First Boston Corporation, New York City; H. H. Dewar, of Dewar, Robertson & Pancoast, San Antonio, Texas; John Fennelly, of Glore, Forgan & Co., Chicago, Ill.; Wallace Fulton, Director of the National Association of Securities Dealers, Inc., Washington, D. C.; W. Yost Fulton, of Maynard H. Murch & Co., Cleveland, Ohio; Norman Buchanan, of the Rockefeller Foundation, New York City; Simon Kuznets, National Bureau of Economic Research and Wharton School, Philadelphia, Pa.; Harry J. Lowman, Wharton School Philadelphia, Pa.; R. J. Saulnier, National Bureau of Economic Research and Columbia University; New York City; and C. R. Whittlesey, Wharton School, Philadelphia, Pa.

The Prospective Trend of Interest Rates

(Continued from page 7)

that attempts to hold these interest costs down have resulted in saving the taxpayers $1 while charging all citizens — including those whose income isn't large enough to require taxes—multiple dollars by unnecessarily inflating the price structure and the cost of living.

But by now it is both too late and too early to abandon the support of Treasury security prices. A reduction in the pegs of several points or more would serve no good purpose at this time. We would have to deal, in the end, with a support level of say 1¾% for one year money to 2¾ or 3% for long-term money instead of that which we have. The fundamentals would not be changed at all. Such a reduction in the pegs would be taken to mean that others would follow and the results would not be good. We cannot afford to *eliminate* the pegs at this time because their elimination would so shock lenders and investors that we would be pulling the rug out from under business. And, who knows what the repercussions would be on those who hold $50 billion of savings bonds. We have to find *some* solution, but up to this minute none has been offered that really meets the problem—and today's conditions.

The government is pinned on the horns of a painful dilemma, and it grits its teeth sometimes from the pain—although it cannot extricate itself—and us. When it can gain an inch it is fearfully slow to act, and it is forever being tempted to lean on additional and more treacherous horns. Take the case of nonmarketable issues. The Treasury has continued to expand their use. Its last two offerings to professional investors have been nonmarketable issues redeemable at will—and at some penalty to encourage their retention. If for any reason—such as a deficit in the cash budget, or because it wishes to redeem bank held debt, or a strong bond market, the Treasury decided to issue additional securities to professional investors—chances favor that they would again resort to ones that are nonmarketable.

The best way to test the correctness of a policy is to carry it to an extreme. What would be the situation, today, if the public debt held by savings banks, commercial banks and insurance companies was all of a nonmarketable character? Certainly the problem of buying securities against "pegs" would disappear. And in its place would you have a freer or a less free hand in the management of your bank?

Certainly the transfer of assets from Treasury securities to mortgages, for example, might result in more questions—at a Federal Reserve Bank or the Treasury. Carry the necessary authority down from the Secretary of the Treasury or the Chairman of the Federal Reserve Board to representatives in the various business centers of the country. You have dealt with representatives of the O.P.A. Is that type of operation in debt management compatible with a private capital economy?

How long would it be before it would become routine to hear—"may we ask to what purpose you wish to apply these funds? Is your borrower acting in the national interest—as the government sees it—in applying for this credit?"

Attempts to control Treasury security prices—whether by "pegs" or by resorting to nonmarketable issues makes it impossible for interest rates to fluctuate in response to the normal forces created by economic conditions. This obstruction to the functioning of interest rates deprives our economy of the warnings that we need. Moreover a freely fluctuating rate tends to change quickly if large numbers of people wish to sell what they have or wish to buy from others. In a free market the changes may occur so quickly that large transfers of securities cannot be effected. This is a good protection to the economy. If, on the other hand, such transfers are desirable the Federal Reserve could facilitate them by open market purchases — purchases based on the general welfare and not borne by slavery to a Treasury support policy.

All of this is absent if the public debt consists of non-marketable obligations. We would get a warning but the warning would take place at the only other point of "give" in such a set-up. The warning would come from greatly enlarged transfers of Treasury securities—from the public to the Treasury—via redemptions, regardless, of course, of whether the Treasury coud obtain the funds from other than a printing press. Printing presses—or a selective or wholesale abrogation of the redemption contracts. Certainly there would not be much choice. These possibilities have been so clear that the Federal Reserve has advocated that nonmarketable securities be issued under a legislative requirement that they be held—first by commercial banks, and more recently the suggestion has been that insurance companies and savings banks be included. Why? Because the Treasury and the Federal Reserve find that their endeavors to control the price of money to the Treasury are completely incompatible with the control of credit under a private capital system.

And I might add, that if the commercial banks, insurance companies and savings banks are required to hold non-marketable securities how long might it be before someone questioned the subsidy involved in these privileged dollars represented by no-risk bonds? How safe do you believe a 2½% rate would be in such circumstances? How assured could we be of a free capital market to finance American prosperity?

At the outset of this discussion, I said that no suitable alternative to the support of Treasury security prices had as yet been provided. I have just made dramatic statements as to where such support may lead us. I do not consider these statements to be incongruous. An unpleasant fact is still a fact—an unpleasant possibility remains a possibility. We have been playing for time—we must continue to do so. Business conditions will ease sufficiently some day to reduce present pressures—or to change the problem if not to reduce its scope. But it seems to me that every savings banker, commercial banker and insurance company executive must oppose, for patriotic reasons, any attempts to widen the use of non-marketable Treasury securities for institutional investors.

Federal Reserve Credit Policies

This brings me to my third point—Federal Reserve credit policies and open market operations. The Federal Reserve is more responsible for credit than is the Treasury, but it has had to join hands with the Treasury in making decisions with respect to the buying and selling of Treasury securities in the market. Therefore, while the Federal has endeavored to retard credit expansion on the one hand, the other hand has had to function so that the expansion of credit has been enlarged. By pressing one hand against the other, the expansion of the credit base inherent in the support of Treasury security prices may have been reduced, but this gain has been largely a negative one. The Treasury has been collecting burdensome taxes, to effect large debt reductions, in order to combat inflation, by reducing bank held debt. But because of "support" the gains to be achieved have been lost. High taxes have reduced the monies available for equity investment. Capital needs have been met, therefore, too largely by debt. This debt has been absorbed, in some large part, by sales of Treasury securities by most classes of investors. Sales by non-bank holders have eased the credit position of the banks—increases in reserve requirements notwithstanding. High taxes in conjunction with support of Treasury security prices produce a merry-go-round which calls for higher taxes. We need less emphasis on support, on debt reduction based on bookkeeping deficits, and more equity capital which will reduce debt financing and reduce the problems of support—and this means tax revision—not higher taxes.

The most effective brake against undue future credit expansion is the high ratio of risk assets to capital which exists in the banking structure. But this leaves a lot of credit available elsewhere in the economy. Shots in the arm via enlarged defense and other government expenditures will increase the problems but new controls will not cure them. And, when and as business turns downward the conflicting policies of support and withholding credit may disappear, but what we get in reverse will be no better. The Federal and the Treasury will have to let the bond market move up to the low yield levels of 1945 and 1946, with the attendant penalties on insurance policyholders, pensioners, and the like or engage in other complicated maneuvers which are bound to be deflationary. Deflationary policies coincident with a downturn in business are not good political policies. The bear with the tail will be a lot larger.

So at this point I want to talk about something which I admitted would seem to be a strange subject to include in an address to savings bankers. I have had it on my mind and your kind invitation to be here gives me an opportunity that I do not want to miss because I think the need for something of its kind is pressing.

Need of Equity Capital Investment

I have referred to the need for equity capital investment. I have indicated the manner in which its lack complicates the problems of supporting Treasury security prices and of retarding credit expansion. There is another major consideration.

Business management is properly concerned with how it can arouse a greater interest in the problems of maintaining production, and employment, and of the necessity of returning to the owners of the business dividends that represent an incentive return. One thing is certain—talk will not do it. Few people are interested in the hard luck stories of others—and that particularly applies when management says to its employees—"Let me tell you about my operation. . . ."

To make a long story short. Some 52 million of income tax returns are expected for 1948. Almost 50 million should appear in the income brackets of $5,000 per annum or less. About 23 million should be in brackets of income of from $2,000 to $5,000. This group will receive more than one-third of the national income, and more than half of the net taxable income of individuals. The dollar amount of their income, on a rough estimate, looks as though it should approach $70 billion. These people will receive about the same proportion of the total dividends shown in net taxable income as was true in 1942—around 25%.

Here is the big mass of wage earners. Here are the people whom business management needs to interest in the problems of running business profitably. Here, certainly, is a tremendous source of equity investment if it can be energized. If it is a good thing to have a wide section of the population owning savings bonds, it would be better yet to have them hold an increased investment in American business. How can we achieve it?

Many business firms, for years, have offered special premiums with each purchase of one or more of their products. At times these premiums are something truly extra and at others they represent no tangible value but endeavor to build up interested groups — groups for whom the premium may hold an appeal wholly aside from the merits of the product itself. I recall that, as a boy, I tried to persuade my father to switch brands of cigarettes because of the increased appeal of some new pictures of baseball players that had suddenly appeared in a brand of cigarettes my father did not use. Today breakfast foods enlist the aid of the children by offering premiums designed for them.

I believe that we should create a premium for the dollars that are invested in business by those whose incomes are $5,000 a year or less. We used to have in our tax system what was known as an earned income credit. I would create a somewhat similar credit for dividends.

I do not believe that there is much chance for a considered examination of the double taxation of dividends in the early part of the next Congressional session but a relatively simple change could be enacted and could go a long way in reducing the problems arising from insufficient equity capital, and too little common interest between wage earners and owners.

Grant a tax credit for dividends received by individuals equal to 50% of the corporate taxes paid, with a minimum credit of 20%, but limit the dollar amount of dividends to which this could apply to the sum of $2,000 per annum.

Thus the maximum tax credit for any single return would be limited to $400.

The Treasury has said that a tax credit of this kind is the more simple of all the methods for reducing the double taxation of dividends. The limitation on the amount of dividends to which the credit would apply removes one of the most general objections that has been raised. The maximum benefit of this proposal would accrue to those subject to the first bracket of individual surtaxes.

If Congress increases the rates of tax on corporations, keep the individual's tax credit at 50% of the total corporate tax. The necessity for having such a tax credit increases as corporate tax rates are increased or remain high. If Congress increases corporate taxes unduly it must be recognized that, dividends will be reduced, and/or more capital must be borrowed, or more shares sold. It will be increasingly difficult to avoid a decrease in business expansion, in production, and in employment if corporate taxes are increased materially beyond present levels.

Is this a sufficient premium to attract investment funds? That is difficult to foretell, but it follows good precedents and it should produce some substantial results. The stocks of many good companies sell to yield 8 to 10%. With no taxes applicable to such dividends the small investor would be getting a pretty good deal. I believe such a premium on dollars invested in the equity of American business would create many new small capitalists. I am confident that it would materially enlarge the supply of funds available for equity securities.

It might cause, eventually, some competition for savings banks, but the savings banks are bound to be more virile as the American economy becomes more sound, less dependent on borrowed capital and subject to less distortions from repetitious demands for wages and benefits by the men who draw wages but too few dividends.

Its cost? I can't give you a real figure. I have made a stab at it. About $1 billion a year or less. But if it would do the job of providing some substantial amount of equity capital, if it would bring the mutual interests of the wage earner and management closer together, if it would help to provide a sounder financial structure for American business—it would be cheap at several times that sum. Treasury receipts can fall very quickly if the volume of production and employment undergoes any substantial decline. Increased equity investment of this kind would help to sustain both. A 4% increase in corporation taxes might not be welcome, but it would pay for the cost of the tax credit involved if it were deemed necessary to avoid the loss on revenue. Such an increased corporate rate would not be burdensome.

Inflationary? Stabilizing might be the better term. If, by virtue of such a premium on investment in free enterprise by the average man, we obtain a broader and more virile market for equity investments, many businesses might welcome the opportunity to decrease debt by refunding into common stocks.

In other words, I propose a good old American practice in selling a product which requires mass consumption. It is simple to administer. It is a tax incentive which benefits the average man. It should increase the funds willing to acquire equities; it should tend, thereby, to strengthen the financial structure of American business? It could prove to be both anti-inflationary, and a prop for business; it should create a wider bond of common interest between labor and management.

To sum up my remarks—

We have two Treasury budgets. One most concerns the accounts. It is, however, the relationship between the cash receipts and expenditures of the Treasury which exercises a deflationary or inflationary impact on our economy. It is only these cash transactions which should be dealt with when we discuss the need for taxes, and the desirability of a budget balance. The liability to the trust funds and agency accounts should not require a lot of so-called public debt transactions.

This is not the time to play with the support prices of Treasury securities, much as support magnifies our problems. In a downward business trend the present type of Treasury debt management and the open-market operations of the Federal Reserve may be much less popular than they perhaps have been during a period of inflation and although we have provided, as yet, no adequate solution to the problems borne of support—if we are to prevent impaling ourselves crucially on the horns of our dilemma, all of us must oppose any further use of nonmarketable securities for institutional investors.

Finally, I have presumed upon your invitation to suggest a means of decreasing the double taxation on corporate dividends. I believe that by giving a premium via a tax credit to the investments made in American business, and by limiting the amount of income to which this premium is applicable, we may popularize a principle of taxation that is much needed, pro-

vide a substantial reservoir of equity capital, and make it possible for business management and labor to talk about "*their* operation." That premium involves a tax credit equal to 50% of the corporate taxes paid—with a credit of not less than 20%, and with such a credit applicable to dividends in an amount not to exceed $2,000 per tax return.

News About Banks And Bankers

(Continued from page 16)

ther $25,000 added to the capital was realized through the sale of new stock. The Comptroller of the Currency indicates that the enlarged capital became effective Nov. 23.

* * *

The **Live Stock National Bank of Omaha, Neb.**, has increased its capital, effective Nov. 22, from $500,000 to $1,000,000, through a $500,000 stock dividend, according to a recent bulletin issued by the Office of the Comptroller of the Currency.

* * *

The Douglas County Bank of Omaha, Neb., announces the election of Henry R. Roose as Vice-President and Cashier, effective Dec. 1. K. G. Harvey is President of the bank.

* * *

Purchase of the **Monroe State Bank of Monroe, Oregon**, by Transamerica Corporation was announced on Nov. 27 by Walter P. Hubbard, President of the Monroe institution, according to Frank Barton, Financial Editor of the Portland "Oregonian," the advises therein stating:

"As a result of the transaction the Monroe bank becomes the 13th affiliate and the 58th member of the **First National Bank of Portland** group, it was pointed out by Mr. Hubbard. The account in the "Oregonian" said that the five directors of the bank, including Mr. Hubbard, S. H. Turner, Theodore S. Kowalski, Ralph Hull and W. J. Miller, were the former owners. It is added that Mr. Hubbard will remain as President and will continue to operate with the same group of assistants. Messrs. Hubbard, Turner, Hull and Kowalski, four of the former directors, and Elmo E. Johnson, Senior Vice-President of the Benton County State Bank, Corvallis, will constitute the board of directors under the new setup. The Monroe bank has demand deposits of $802,000, assets of $1,137,831 and capital and reserves of $57,208.

Three Join Sutro & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Lionel B. LeBel, H. Donald Leitch and James R. Plant have become associated with Sutro & Co., Van Nuys Bldg. All were previously with the Los Angeles office of Buckley Brothers.

Herrick, Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA. — Paul P. Sanford and Weldon Willis of Orlando and Howard J. Miller of Winter Garden are now connected with Herrick, Waddell & Reed, Inc.

Maloney & Meyer Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Walter M. Wells has become affiliated with Maloney & Meyer, Inc., 650 South Spring Street. He was previously with Wm. R. Staats Co. and John B. Dunbar & Co.

Van Leah McCarty Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — Van Leah McCarty is engaging in a securities business from offices at 2563 Wilshire Boulevard.

The State of Trade and Industry

(Continued from page 5)

or 28.0%, from the record number of 114,437 corporations formed during the first 10 months of 1946.

STEEL OUTPUT SCHEDULED AT 100% OF CAPACITY FOR CURRENT WEEK

A shrinking of home appliance sales volume in the Midwest has been taken by some manufacturers as more than a straw in the wind for that industry, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. So much so that a few Chicago area people are talking about cuts in conversion of steel and withdrawal from the gray market. So far the number of companies who have cut conversion plans is not large, but Midwest appliance makers are anxiously watching Christmas sales. If they are heavy no more changes will be made. If they are less than expected, less steel via the higher-priced route will be purchased.

While Midwest makers were worrying, the same could not be said for Detroit, Pittsburgh and Eastern appliance makers. A check on a few of the larger manufacturers disclosed that if washer, high-priced refrigerator, ironer and sweeper markets were jammed, the steel would be used to produce cheaper refrigerators, other types of appliances and accessories which were not being made because of the steel shortage, this trade paper observed. They also pointed out that some accessories now being made of steel substitutes could be made much better with steel.

Steel consumption figures show that about 1,700,000 tons of finished steel will be used this year in the manufacture of all appliances. If all appliance making were to stop completely, the amount of steel involved would be a small part of total steel shipments.

So far as can be determined, no other large users of steel are getting what they want. Nor can it be said that appliance makers as a whole agree with Midwestern views on the permanency of the decline in sales and the consequent building up of inventories. They admit that their turn to believe that way may come sooner than they expect.

While the question of the significance of weaker markets for soft goods lines made from steel continues, other steel customers are afraid that a fourth round of wages, the adverse outlook in foreign affairs and the knowledge that the Administration would not stand for large unemployment will keep up inflationary trends. If that be true, then any steel on hand is money in the bank.

Current reports on steel demand show no decrease in orders at steel centers, the magazine reveals. Sales people say that each week they get letters from large users of steel pleading for more tonnage.

It is a safe bet that if the railroad freight rate hearings now going on result in another rate increase on steel products, buyers will put even more emphasis on trucks. That emphasis is even now growing. When the Interstate Commerce Commission made final its decision on the most recent rail rate increases last August the radius of economical truck shipments soared from about 350 miles to about 500 miles.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 100.0% of capacity for the week beginning Dec. 6, 1948, a decrease of 0.1 of a point or 0.1% below the preceding week. A month ago the indicated rate was 99.4%.

This week's operating rate is equivalent to 1,802,500 tons of steel ingots and castings against 1,804,300 tons a week ago, 1,791,700 tons a month ago and 1,710,000 tons, or 97.7% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT HITS NEW ALL-TIME HIGH IN WEEK ENDED DEC. 4

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 4, was 5,645,686,000 kwh., according to the Edison Electric Institute. This was an increase of 296,519,000 kwh. above output in the preceding week which stood at 5,349,167,000 kwh. (revised), and an increase of 427,736,000 kwh., or 8.2% higher than the figure reported for the week ended Dec. 6, 1947. It was also 972,974,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS FALL IN THANKSGIVING DAY, HOLIDAY WEEK

Loadings of revenue freight for the week ended Nov. 27, 1948, which included Thanksgiving Day, totaled 723,090 cars, according to the Association of American Railroads. This was a decrease of 134,402 cars, or 15.7% below the preceding week this year. It also represented a decrease of 69,241 cars, or 8.7%, under the corresponding week in 1947, but an increase of 62,179 cars, or 9.4% above the similar period in 1946.

AUTO OUTPUT ESTABLISHES NEW POSTWAR HIGH FOR WEEK

Production of cars and trucks in the United States and Canada advanced to 125,156 units from 89,482 (revised) units the previous week, according to "Ward's Automotive Reports."

This week's production set a new postwar high, bringing output thus far in 1948 ahead of the total for all 1947.

Output in the similar period a year ago was 110,759 units and in the like week of 1941, 92,205 units.

This week's output consisted of 92,744 cars and 26,230 trucks made in the United States and 4,026 cars and 2,156 trucks in Canada.

The total for the year to date is now 5,106,648 units compared with 5,052,523 in the full year of 1947, the agency said.

BUSINESS FAILURES RESUME RISE IN POST-HOLIDAY WEEK

Commercial and industrial failures rose to 126 in the week ended Dec. 2 from 101 in the preceding holiday-shortened week, reported Dun & Bradstreet, Inc. Casualties exceeded the 60 and 37 which occurred in the comparable weeks of 1947 and 1946, respectively, but were less than the 297 in the corresponding week of 1939.

FOOD PRICE INDEX DIPS TWO CENTS IN LATEST WEEK

Irregular movements resulted in a drop of two cents the past week in the Dun & Bradstreet wholesale food price index. The index fell to $6.36 on Nov. 30, from $6.38 a week earlier, to duplicate the 17-month low recorded on Nov. 2, since which time weekly fluctuations of the index have held within a narrow range of three cents. The current index level compares with $7.17 at this time last year, or a decrease of 11.3%.

COMMODITY PRICE INDEX RECEDES SLIGHTLY IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., declined slightly during the past week to close at 272.31 on Nov. 30. This compared with 272.79 a week previous and with 298.02 on the corresponding date a year ago.

Grain markets trended lower in the latter part of the week following early firmness.

Wheat developed an easier tone as the result of increased selling of stored grain by farmers as prices advanced to around 12 cents over the government loan.

Other factors were further beneficial moisture in the Southwest and reports of increased winter wheat plantings. A resumption of exports was expected with the settlement of the seamen's strike. Corn showed a sagging tendency, the decline being accelerated by liquidation by holders of December contracts. The movement of cash corn from the country continued in good volume. Reports from producing areas indicated that a large percentage of this year's corn crop would be placed in the government loan. Oats turned downward in late dealings in sympathy with weakness in other grains.

The domestic flour market was featured by a softening of prices and continued small bookings. Slow demand from chain bakers was attributed to disappointing bakery sales.

Export flour buying for European account was reported at a standstill.

Cocoa developed pronounced weakness due to liquidation induced by the ending of the shipping tie-up and prospects of an easing in the world supply situation. Imports of cocoa so far this year are estimated at about 3,500,000 bags, compared with 3,600,000 in the same period last year.

Butter spurted upward at the close after prices had fallen close to the year's low.

The hog market was irregular with prices up moderately for the week. Lard ended slightly lower following early strength.

The raw cotton market was somewhat irregular and prices held to a narrow range and closed slightly higher than a week ago. Demand was less active although inquiries were fairly numerous. Reported sales in the ten spot markets totaled only 187,600 bales during the holiday-shortened week, against 286,800 the previous week and 297,500 in the like week a year ago.

Entries of cotton into the government loan continued in large volume, totaling about 368,000 bales during the week ended Nov. 18, a new weekly high for the season.

This compared with the previous peak of around 340,000 bales for the week ended Oct. 28 and brought the total entries for the season through Nov. 18 to more than 2,662,000 bales. Cotton textiles were more active with prices steady to firm.

RETAIL AND WHOLESALE TRADE REFLECTS SLIGHT VARIATIONS WITH BUYING SUSTAINED IN LATEST WEEK

As many consumers returned to traditional shopping habits and began their Christmas shopping after Thanksgiving Day, retail dollar volume increased slightly in the period ended on Wednesday of last week, according to Dun & Bradstreet, Inc., in its current summary of trade.

Total volume was fractionally less than in the corresponding week a year ago. Special sales and holiday promotions were prevalent in many areas. Most shoppers insisted upon good quality merchandise at moderate prices.

The response by many consumers to promotions of winter wear increased retail apparel volume fractionally this week.

Women's coats and suits continued to be sold in a large volume with a noticeable rise in the volume of women's accessories reported. The demand for dresses declined moderately. Interest in men's apparel was generally low and demand for overcoats continued to be very limited. There was a moderate increase in the retail volume of men's furnishings.

Total retail food volume declined fractionally in the week following Thanksgiving Day. Housewives purchased less meat than in recent weeks and many shoppers requested the moderately priced cuts. Consumer interest in fresh fruits and vegetables and in frozen foods rose slightly. The demand for canned goods remained unchanged.

Consumer interest in furniture and housewares reflected a modest increase last week. Electrical appliances were purchased at a retail volume level close to that of the previous week. The demand for washers, mixers and television was up slightly, while consumer interest in refrigerators and small radios declined moderately.

Retail volume was estimated to be from 3% below to 1% above a year ago.

Regional estimates varied from the corresponding 1947 levels by the following percentages: New England 0 to up 4, East and Southwest down 3 to up 1, South and Midwest down 4 to 0, Northwest 0 to up 3, and Pacific Coast down 6 to down 2.

Moderate dips in wholesale order volume in some sections were offset by increases in others in the past week. Total dollar volume continued close to the high level of recent weeks, but was slightly less than that of the comparable week last year. Deliveries continued to be as prompt as in previous weeks. The number of buyers attending many wholesale markets slightly exceeded the number in the previous week and in the corresponding week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 27, 1948, decreased by 5% from the like period of last year. This compared with a decrease of 6% recorded in the preceding week. For the four weeks ended Nov. 27, 1948, sales decreased by 7% and for the year to date increased by 6%.

Here in New York retail sales volume the past week was again below the level of the corresponding period one year ago. It was reported that Christmas gift buying is tending to develop late this year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 27, 1948, declined by 6% from the same period last year. In the preceding week a decrease of 8% was registered over the similar week of 1947. For the four weeks ended Nov. 27, 1948, a drop of 8% was recorded over that of last year and for the year to date volume increased by 4%.

Teamwork for Prosperity

(Continued from page 6)

pansion when industry is investing in new facilities to take advantage of a hungry market, and when pipelines have to be filled before consumers' needs are met, industry itself becomes a strong bidder for basic materials and reduces the supply available for current consumption.

The Effects of Price Rises

Under the conditions I have described, it was to be expected that in the absence of economic controls, prices would rise steadily. The Consumer Index of the Bureau of Labor Statistics now shows the cost of living to be 36% above what it was in 1945. It is 76% higher than in 1939. The composite price of finished steel is now about $83 a ton, as compared with $55 a ton in 1945. I need not remind this group of other price increases affecting the cost of production.

When increased demand outruns production and results in higher prices, labor asks for higher wages. This is natural, and should occasion no surprise. When business pays the increased wages in addition to higher prices for materials, it in turn increases the price of its product to meet the increased cost of production. So the familiar spiral begins and continues. Stopping that spiral must be our first concern. However, this should be done carefully and wisely. We do not wish to cause a depression by going back down the spiral too precipitately.

If we are to obtain a solution of our present difficulties, we must be frank with each other. No benefit can come from self-delusion. In being frank with one another, we must not be too quick to place the blame for inflation on someone else. Everyone is ready to admit the dangers of inflation, but few of us are willing to forego the immediate gains we realize in a boom period. Our aim must be to get together and make mutual adjustments so that we can put the whole economy on a sound basis for continuing prosperity. If every group and government agency which is spending will exercise restraint even though the effort is difficult, if essential military expenditures are not too large, if labor and business will each exercise restraint in the matter of wages and prices, if food prices can be brought down in an orderly way, we can unquestionably move into a less feverish atmosphere where labor will still be fully employed, at good wages, farmers will still be prosperous, and business will continue to make money.

We cannot, however, expect any one group or agency to make the entire effort and contribution. I cannot do better than quote from a statement of the executive committee of the American Federation of Labor made recently at its convention in Cincinnati: "Responsibility for such a program must be assumed by the functioning citizens and groups in our country—management, farmers, labor, consumers, financial and other interests—with the government cooperating but not dominating. Effective steps cannot be taken by single companies, individuals, single unions or by any group alone." Business has nothing to fear from such a program. It must expect to bear part of the burden, not all of it.

A Believer in Private Enterprise

I am a believer in private enterprise, and I share with many others the feeling that it is largely responsible for the great material progress we have made: but the patterns of private enterprise as we know them in America are not beyond question or criticism, and I hope that you as the representatives of private enterprise will agree with me that we should review periodically our weaknesses as well as our strength. Under private enterprise we have produced more of this world's goods than any other nation in history. We have not only spread the benefits of this production over our own population but have poured out these benefits to the peoples of the world. Our system has met the test of practice, and we are justly proud of what it has done. Our impressive accomplishments, however, should not blind us to the possibility that we may encounter serious trouble in the years ahead. Businessmen should not allow themselves to become fanatics who defend our present system of private enterprise as perfect and deny that it has flaws or seams. They should constantly check its performance against one valid test: Does it strengthen America and does it minister to the greatest good for the greatest number?

If it is the obligation of businessmen to remain open-minded and objective about the performance of the private enterprise system, what is the obligation of government? First of all, government officials should remember that businessmen are working for profits. Profit is the main motivation of business; it is the ignition system of our economic engine. The importance of profit must be recognized and utilized.

Government should assume that businessmen are honest and that they have the welfare of the country at heart. During the time I have been Secretary of Commerce I have found businessmen willing to cooperate with government for the welfare of the country, and I have been impressed by their willingness to give government the facts necessary to provide an open and complete survey of the problems under discussion. This has been true of the program of voluntary allocations of steel. It has been true of the cooperative effort to obtain steel scrap. The same attitude of open cooperation has characterized our relations with exporters in attempting to adapt our export controls to fit trade practices. We in government wish to base our relations with business on the recognition that businessmen know more about their own business than government officials; asking business at the same time to recognize that government is able to take a broader and more detached view of each business as part of a whole economy.

If businessmen will analyze the problems of the economy dispassionately and if government officials will place confidence in businessmen, we can work together to halt the spiral of inflation and create a climate favorable to sound economic growth.

We should begin to tackle this job by recognizing that inflation results from an excess of demand over supply. Whatever can be done in the way of increasing the supply of goods and services through improvements in productive efficiency, through the elimination of production bottlenecks, through prudent expansion of the capacity of key industries, and through the elimination of restrictions on output, is thus a step in the right direction. It must be recognized, however, that, with most of those able and willing to work already employed and with many of our basic industries already operating at capacity, any further increases in aggregate output are likely to be gradual. We must face the fact that we may not be able to produce enough immediately to supply consumers with all they would like to buy and businessmen with all the capital goods they would like to procure, and at the same time do all we must do in the way of national defense, foreign aid and other government expenditures. To the extent that supply and demand are still out of balance, a major reliance must be placed on restricting demand.

Cooperation Based on Knowledge of Economic Facts

In analyzing this situation, and developing an adequate basis for current decision, it is the first responsibility of business and government to provide themselves with the facts about production and distribution, spending and saving, investment and employment. This is a cooperative job, and it has been carried on through the teamwork between industry and the statistical agencies of the government for many years. In the past two years the government has increased its facilities for interpreting the facts supplied by business. In addition to the long-established analytical staffs of the Department of Commerce and many other economic agencies, we now have the President's Council of Economic Advisers and the Congressional Joint Committee on the Economic Report. These groups are expertly staffed to analyze statistical information and to chart the health of the economy. The supplying and compiling of the information upon which the diagnosis is based is a natural and highly successful joint enterprise of business and government.

When the diagnosis of our economy shows that critical shortages are putting pressure on certain segments of industry, business should try to find the remedy. Sometimes business cannot take necessary action to relieve these shortages without the cooperation of government. During the past year, for instance, there has been in effect a program of voluntary industry cooperation authorized by Congress for the purpose of allocating goods in short supply to those key industries which have been most severely in need of the short supply items. The Office of Industry Cooperation of the Department of Commerce has worked harmoniously with representatives of the iron and steel industry to assure an adequate supply of these commodities to those critical parts of the economy where they were most badly needed. As a result, approximately 10% of the current output of iron and steel is being supplied to correct shortages in transportation, housing, the petroleum industry, and national defense. This does not mean that 10% of our iron and steel is being diverted from other uses, since most of the 10% would have gone to those industries I have mentioned without the voluntary program. It does mean, however, that these critical industries are assured of a steady supply of iron and steel. The actual diversion of iron and steel from other uses to the industries mentioned is only 2.23% of our total iron and steel output. This program has given us valuable experience which will make easier the setting up of an expanded program of materials controls if this should prove to be necessary.

We are living in a time when nearly every basic industry is producing at or near maximum capacity. This is true of iron and steel, the non-ferrous metals, petroleum, construction, transportation, and electric power. Even with these industries working at or near capacity, supplies of many materials are insufficient to fill the domestic demand and at the same time take care of our commitments abroad. Under these conditions it seems likely that an allocation program may be needed for some time. This will be even more true if military expenditures are increased. Odd as it may seem to many people, the enlargement of our military program now would create much greater difficulties for the economy than it did in 1940. Then we had everything to gain from expansion. Many of our industries were not producing at full capacity. Now we have virtually full employment of our human and technical resources; we are faced with material and manpower shortages; and our stability is threatened by inflationary pressures. The three billion dollar increase in the military budget last March has put considerable pressure upon the economy to fill the order. Another enlargement of the military order would further intensify that pressure. To fill the order would almost certainly call for economic controls of various kinds. An expanded military program would require teamwork and restraint on the part of all the people. Avoiding controls will certainly require teamwork and rigid restraint on the part of those who are entrusted with our military effort. They should practice the abnegation of saints to make the wisest and most effective use of the taxpayers' money; and the soundness of the civilian economy should of necessity be a matter of concern in their planning.

Competition Essential

I believe we should be especially vigilant in any program of military expansion to see that small business is given a chance to make its full contribution. The health and vigor of our economy depend on competition and the wide distribution of economic power; Congress and the Executive Agencies should intensify their efforts to safeguard the interests of small business and to campaign against the growth of economic concentration and monopoly.

Allocation of scarce commodities to key industries will not of itself be sufficient to check inflation. During the time we have been expanding to meet the demands of the domestic and foreign market, prices of industrial products and raw materials have risen substantially. There is nothing unnatural or unexpected about this. In many cases the price increases have been made necessary by cost increases. Some of our major corporations have shown admirable restraint in raising prices and have reluctantly done so in the face of steadily mounting costs. In other cases price increases have been greater than necessary to cover cost and they have contributed to the inflationary spiral which is now a danger to us all. The farsighted businessman will not exploit the easy conditions of a seller's market. He will keep himself in position to meet the competitive realities of a buyer's market, which will come sooner or later.

It is not unfair to ask business to cooperate in the fight against inflation. Its profits are high and have continued to rise throughout this year, although 12 months ago many businessmen were saying that profits would be dangerously low this year. As I have said earlier tonight, and as I have said on other occasions, there is nothing sinful about profit, and our private enterprise system cannot exist without it. Business, however, should give careful and thoughtful consideration to the inflationary effect of large profits and unreasonably high prices.

Inflation Initiated by Government

Some of the forces of inflation are initiated by the government and can be controlled by the government alone. We recognize the inflationary pressure of expenditures for military defense, foreign aid, and large-scale public works. The government—and the States Counties, and Municipalities—should screen carefully all items on their programs of public construction in the period immediately ahead. Some of these public projects are already under way and construction cannot be interrupted. Others are necessary to our program of military defense. Some will be necessary to increase our civilian production and maintain public health. Each, however, should be reviewed in the light of its contribution to the nation's strength and to the solution of our major economic problems. Those which can should be postponed to a later day when prices are lower and labor may be looking for work.

The government is also responsible for adjusting fiscal policy to meet changing economic conditions. In an inflationary period we must build up a surplus in the Federal budget, to be used to help retire our huge national debt. The result of recent tax reductions, which were made at a time when the Federal Government was assuming new and extensive responsibilities for foreign aid and national defense, has been a drastic decrease in the Federal cash surplus, and this reduction in turn has helped to prolong inflation through 1948.

In making the economy strong and keeping it strong, all of us may be called upon to do some things which are unpleasant. The Department of Commerce has been forced to say "no" to many businessmen, especially exporters. It is my responsibility to see that goods we need in this country to increase production and combat inflation are not shipped out of the country in excessive quantities. There are many claimants abroad for these goods. There are agencies and groups within our own government who feel it to be their duty, and properly so, to urge the export of large quantities of products from this country, many of them in short supply. It rests unfortunately, with the Department of Commerce to say the final "yes" or "no" to these many worthy claims. It is always more pleasant to say "yes," but occasionally we must say "no." It is because I have assumed this occasionally unpleasant task that I feel I have the right to suggest that you undertake certain responsibilities which may also be unpleasant.

In my opinion maintaining the strength of our own economy comes first. Today upon us rests the burden of world support. We cannot carry that burden if we ignore our own needs and fail to realize that there are limits to our strength and our endurance. We must examine periodically our body politic and economic as a doctor would examine a patient to make certain there is no spot on the lungs or murmur in the heart.

I have been talking about the immediate responsibilities of business and government in averting the dangers which confront the nation. In the long run, business and government must find ways to provide the things our people need to maintain and raise their standard of living. We need more and cheaper consumer goods and services of all kinds, and business must broaden its market by increasing productive efficiency and reducing unit prices. We need greater production of almost all basic raw materials. We need more and better houses. We need more hospitals, more medical clinics. We need better parking facilities in our cities and better highways between our cities. We need more playgrounds, more gymnasiums, and swimming pools. Above all we need better schools, and more school teachers. I have mentioned only a few of the things we must have to develop our human resources and to raise our standard of living. Some of these things can be provided by a more imaginative and a more daring investment of private capital at home and abroad. Some of them can be provided only by government. As long as these

needs exist we should not worry about having a "mature economy." We still have a frontier to push forward.

These jobs will not be done without teamwork. They will be done with teamwork. We Americans can put together a team which will reach these goals. In our sports, in our work and on the battlefield we have shown real teamwork. We know that a winning team has more than skill and brawn. It has incentive. Sometimes this incentive is a material reward. More frequently it is an enthusiastic loyalty for an institution. Even in the field of business where profit is supposed to be the main—if not the only—incentive, you and I know that businessmen are powerfully impelled by the desire to see their organizations or their companies succeed and thrive. I believe they are equally impelled by the desire to see this nation succeed and thrive. In the last analysis that desire is the heart of their incentive.

Participation is an important part of successful teamwork. Rare is the player who can sit on the bench over a long period of time and retain a vital interest in the team's success. The average American will work harder for the team and retain his enthusiasm for our institutions when he feels he is part of the process and has some share in its rewards. When his voice is heard, when his income is adequate, when he owns his own home, he knows that he belongs to the team and is sharing in its victories.

Importance of Incentive and Participation

Businessmen today are well aware of the importance of incentive and participation. Businessmen also are increasingly aware that their profits in the long run depend upon the ability of workers to buy what industry produces. Businessmen now take it for granted that their continued success and the prosperity of the nation depend largely on an expanding domestic market for their goods. This means that as we produce more we must steadily increase mass purchasing power.

Participation and responsibility must be the key ideas in our philosophy of teamwork. I have spoken mainly about three members of the team—government, business, and labor. To create a strong America, however, we must enable all of the people to participate; and you must nurture the sense of individual and group responsibility that is part of our democratic heritage. When we think of the people, we should not visualize them as masses or statistical totals. We must think of them as individual businessmen in their offices, machinists at their lathes, farmers in their fields, and housewives in their homes. If these people are convinced that their efforts count as much toward building a rich and creative peacetime America as they were convinced that they counted in winning the war, we can face the future confidently and without fear.

Many people are inclined to think that businessmen are tough, selfish, and hardboiled. In my experience I have found them to be no more tough and selfish than any other social group. In fact, I have found them to be just as emotional and just as patriotic. The problem which confronts us demands patriotism, vision, and courage. The breaking of the inflationary spiral and the constructive action required to maintain our economy upon a sound basis calls first of all for initiative.

Practically everyone recognizes the problem—the real question is: Who will firmly grasp the nettle? Some urge that this be done solely by government. Government is responsible for seeing that the job is done but in our system it cannot be done by government alone. Your government stands ready to do its part. If we Americans can revive fully our wartime zest for teamwork, government's part of the job will not be difficult. May I suggest that a great opportunity lies before American business—an opportunity which will enable it to justify the soundness of private enterprise and to make an incalculable contribution to the future welfare of our country in which all groups, including businessmen, will share.

Military Expenditures—Crucial Budget Problem

(Continued from first page)

not indicative of a change of heart. Mr. Truman is just as resentful of the opposition to him of business as FDR used to be. There will be little if any obstacle put in the way of a fourth round of wage raises (it will be the sixth for textile workers), and there will be no end of agitation about the alleged $20 billion current "profit" of corporations—even at face value 9% only of the national income.

II.

What makes the President's economic advisers go slow is the threat of two Damocles' swords hanging over the Democratic heads. One is the ghost of an immediate recession. This fear has been accentuated by the post-election cancellation of some corporate expansion plans. Also the prompt reaction which the Stock Exchange has contributed to dampen somewhat the socialistic spirits.

The other fear is more forward-looking. It has to do with the threat of a budgetary deficit that would reinvigorate the inflationary forces. This is the worry behind keeping even the short-term interest rate fixed, and motivating new proposals for tightening credit controls (on paper).

The great dilemma which will have to be "solved," come what may, within the next four years, cannot be evaded by homeopathic medications. Two roads of policy are open to Mr. Truman, both of which lead into bankruptcy. Going into a new national deficit on a large scale would ignite the smoldering inflation, with the prospect of a runaway situation. Avoiding the deficit by raising taxes sky-high would bring down the house of prosperity, and with it the Democratic party.

Mr. Truman seems to have understood this double threat to his political future. He also seems to understand that given the political necessity to maintain this artificial prosperity—to pour out subsidies, to support farm prices, and to raise wages—the only alternative to keeping the wolf of deficits from the door of the White House is keeping military expenditures within bounds. Spend we will, it appears, but the military budget is supposed to be held within a limit of some $15 billion or so a year.

III.

But can it be kept there? That is the crucial question. The managers may plan, but the final decision depends on external forces. We may dilly-dally and try to appease. We may lull ourselves into a feeling of false security, based on the sense of our own inherent power, the assumed weakness of the potential enemy, the magic of the UN, and the expectation of European recovery. This self-deception cannot last long. Pretty soon we are bound to awaken to the realities of a global crisis and to its financial implications.

The UN, to begin with, is an undiluted failure. The situation in Greece has taken a turn to the worse, with as many guerrillas operating today as was the case two years ago. That means $200 to $300 million annually (with another $100 million in Turkey) to the American taxpayer. It failed to accomplish anything in Berlin, and our counter-blockade hurts no one but the Germans, who are squeezed from both sides, while the cost of the air-lift may run as high as $500 million a year. In either case, the Russians gain in devious ways, especially in prestige, at no cost to themselves. They are cheerful onlookers in Palestine and India. Pacifying those areas will be possible only at the price of hundreds of millions—to us.

The UN has failed to control civil wars in Palestine or in hunger-ridden India. Even Parkistan, instead of being an exporter of food as heretofore, now faces a food shortage. There has been more progress in areas where the UN has kept out. The civil war in Burma has died down for the time being, leaving that country in a semi-bolshevik coma. A semblance of order has been restored in Malaya, and something like a truce in the Dutch East Indies, while Indo-China still is in a badly unsettled state. Throughout that vast area of teeming millions—the Middle East and southwestern Asia—production is hamstrung, to say the least, thereby raising vital raw material prices on the world market, and further burdening the American taxpayer and consumer. All of which is net profit to Russia.

IV.

However, the most important aspect of the international picture is **Russia's progress in actual conquest.** This year alone, Czecho-Slovakia fell in the spring, Manchuria in the summer, and Central China in the autumn. Our new (Democratic) isolationism, which consists in avoiding at any price a show-down with Moscow—just like a decade ago, Britain and France were dodging the conflict with Hitler—pays the type of dividends that were to be expected on the Yalta investment of Messrs. Roosevelt and Churchill. To drive the Communists out of China now would cost us an estimated $5 billion. The worst of it is that the American public does not seem to grasp the tremendous consequences of China's fall into Communist hands. And there is little doubt that China must fall shortly, or most of it, thanks to the Truman-Marshall appeasement policy, trying for two years to force the Bolsheviks down Chiang Kai-shek's throat.

Incidentally, the term "appeasement" is a misnomer in this connection. When Chamberlain and Daladier went to Munich, they did so for reasons of temporary expediency, not as a matter of principle. They wanted to win time for their own countries' rearmament, and to maintain in the meantime the balance of power. They stumbled over one miscalculation: the assumption that Stalin would not double-cross them. The system inaugurated at Yalta, and applied since, has different roots. Presently, Stalin is the one in need of time to develop the atom bomb and other decisive weapons, and our clinging to a shadowy *status quo* unbalances fatally the power-equibilibrium by permitting Soviet expansion on a fantastic scale. Yalta implies something permanent and fundamental that never was intended at Munich. Chamberlain never thought, still less spoke, of Nazi Germany as a "peace-loving democracy." Quite the contrary! Our present policy is based on an ethical, or rather unethical, fallacy: that the Soviets are an "economic democracy"—they are less so than Hitler's Reich was — and that they are "peace-loving." In reality, their militant program of world-wide revolution is far more imperialistic than anything Hitler ever dreamed about (publicly).

The purpose of the Rooseveltian appeasement was more than political or military expediency. Its objective was and remains a global construction which guarantees the Soviets a safe and permanent place under the sun. Opposed as Socialists and New Dealers are to bolshevism, its downfall would be a great blow to their own ideal, which in ultimate resort are the same in London as in Moscow and for that matter in some part of New York as well. If the Russians misbehave, they must not be punished too severely. They are being scolded as bad boys, and receive tongue-lashings, but nothing must be done that would inflict upon them a real defeat, such as forcing them to relax the Berlin blockade or to let down the Chinese Communists, anything that might shake up the Soviet system itself. Even the diplomatic weapons at our disposal are left unused. The Assembly of the UN, e.g., could have been utilized as a moral forum to indict Russia as the aggressor in the Reich. The Soviets have been spared even a moral humiliation. Small wonder they are becoming more uninhibited and brazen every day.

China's fall will complete the revolution in the international power balance that began at Teheran. It will make most precarious the hold of the West over Japan, Korea and Southeast Asia—unless it be supported by vastly increased military establishments. Japan may have to be re-militarized. If Viet-nam cannot be subdued by a substantial French force, now many times more troops will be needed against the hoards of a well-armed Communist China infiltrating into Annam and beyond? The repercussions in Europe, direct and indirect, will be equally momentous. In short, the tremendous growth of Soviet power can be matched or contained only by huge armaments on our side. If Truman and Co. speculate on a $15 billion annual military expenditure — obviously, they do not know about what they talk. The amount is more likely to approximate $30 billion per annum, perhaps not even including therein the multi-billions to be spewed forth in a new lend-lease program and a far-flung system of military bases which may become imperative. In addition, armaments will grow more costly as rising wages will carry the price level higher.

Nor is that all.

V.

With China out of the way, Russia can concentrate on the West. Already, to stand Moscow's **universal cold war,** Europe is being bolstered—along the line of the bipartisan doctrine — financially. But bolstered further it must be, at the current or an increasing rate of expense. The Marshall Plan is not self-liquidating: it is self-perpetuating. It was perpetrated as a magnificent reconstruction program, and turned out to be a grandiose relief action. Of the first $2,000 million disbursed by Mr. Hoffman, nearly 50% was allocated for food, feed, and tobacco. Another 30% went into pure consumer goods or sheer accessories of production: fuels and fertilizers, paper and pulp, fibres and textiles, chemicals and medicines, etc. Actual, durable, productive equipment for factories, farms and mines took a paltry $60 million, 3% of the total, some of it mal-allocated at that. As a matter of fact, the Marshall Plan helps to raise living standards in Europe, but does not contribute appreciably to increasing productivity or to reducing import surpluses in an effective fashion, to promoting either essential disinflationary policies or to eliminating intra-European exchange restrictions and trade barriers (except in Denmark).

The British, in particular, take the supine attitude that no further rise in production or decline in their unfavorable balance of trade is in sight. But currently, their deficit in visible trade alone runs at the annual rate of $1.8 billion; the total deficit in their balance of payments may be $2 billion or more. That means a cut in their gold and dollar reserves, over and above using up Marshall Plan credits, which brings those reserves below the danger point. Next year's Marshall Plan allotment to England must be increased substantially if a crisis is to be avoided. A similar situation prevails in France, where the deficit on international accounts has reached an all-time high, as well as in Italy. These three countries, which absorb two-thirds of the $4.8 billion Marshall Plan funds for Europe, have made no progress whatsoever in the direction of standing on their own feet. At least two of them will be worse off next year than they are at present.

The Marshall Plan works in reverse, too, so to speak. It little is understood that without it no major strikes could have occurred in France. Unable to obtain food and fuel, the French people would not have tolerated them. The French miners themselves could not have afforded the luxury. But when Uncle Sam stands by and delivers the coal that should have been mined from the French pits, a little vacation for the miners does not visibly affect either the strikers or the general public in France. Consequently the Communists enjoy more freedom of action with, than without, the Marshall Plan. The recent French episode is characteristic of the perverted effects of a well-intended policy of international bungling—always redounding to Russia's benefit.

VI.

The combination of Marshall plans, Truman doctrines, lend-leases, foreign bases, and domestic armaments must raise the total of unproductive expenditures of this nation far beyond the amounts allocated in the presently contemplated budget. But the picture should be completed by realizing the fantastic character of our military and collateral preparations. We will be the first nation in all history that makes not only grandiose gestures at financial leadership, but simultaneously drives at absolute military supremacy on land, on sea, and in the air. As Seversky has pointed out, no nation can make such an attempt without running into prohibitive taxation or devastating budgetary deficits.

Nor can the effects and after-effects be measured in billions of dollars alone. Total regimentation of the nation and of its resources, together with a complete revolutionizing of its political and economic system are the unavoidable implications.

With First California Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Hans Klehmet II has become associated with First California Co., 218 North Canon Drive. Mr. Klehmet was previously with Bowman Associates, Klehmet & Co. and Gross, Van Court & Co.

Edward Jones Resumes

JACKSON, MISS. — Edward Jones has resumed his investment business under the name of Edward Jones and Co., with offices in the Standard Life Building. Mr. Jones has recently been with Southern Bond Co.

With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Emery C. Julius is now with Buckley Brothers, 530 West Sixth Street.

Business Profits Exaggerated!

(Continued from first page)

reductions, or expansion of plant was about $6.5 billion instead of $12.8 billion as actually reported. In 1947, the amount of corporate income available to pay dividends, increase wages, reduce prices or expand plant was approximately $12 billion instead of $18.1 billion as actually reported. During the first six months of 1948, reported profits have been running at the annual rate of $19.8 billion a year. The amount of income available to pay dividends, increase wages, reduce prices, or increase plant has been running at the annual rate of about $14.9 billion. The overstatement of income during the last six months of the year will be less than the first six months. When the final figures for 1948 are available, however, it will probably be found that real profits are approximately $16 billion, but that reported profits will be between $20 billion and $21 billion—an overstatement of roughly 25%.

According to the reports of American corporations, profits in 1948 are running roughly 3.17 times 1940. Corporate sales in 1948 are running roughly 2.6 times above 1940. Consequently, profits as reported by business organizations, have risen slightly faster than sales since 1940. Actual profits in 1948 were running about 2.4 times 1940 during the first half of the year and will run about 2.5 times 1940 for the year—about $16.0 billion in comparison with $6.3 billion. Hence, actual profits have risen at almost the same rate as corporate sale since 1940. The purchasing power of real corporate profits in 1948 is less than 50% more than in 1940, despite the fact that corporations are producing about 70% more physical product than in 1940.

II

Causes of Discrepancies

Why are there such wide discrepancies between the real profits of American corporations and their reported profits? There are two principal inaccuracies in reports on profits. One arises from the fact that most corporations still insist on counting a rise in the cost of replacing inventories as profits. The other is that most corporations count the rise in the cost of replacing plant and equipment as profits. It is obviously ridiculous to count a rise in costs as profits and yet most corporations do it, and pay stiff taxes on the amounts so reported.

In the year 1946 profits were overstated by $5 billion because of failure to deduct from profits the rise in the cost of replacing inventories—that is, by failure to deduct the amount by which the change in the book value of inventories exceeded the change in the volume of inventories valued at average prices during the period. The estimate of $5 billion is that of the Department of Commerce. In 1947 failure to deduct the rise in the cost of replacing inventories caused profits to be overstated by $5.1 billion. In the first two quarters of 1948 the overstatement of profits has been running at the rate of $3.9 billion. The overstatement for the year as a whole will be about $3 billion.

Some firms do not charge increases in the cost of replacing inventories against profits because they assume that the rise in prices creates inventory gains. The fact that the cost of replacing inventories has risen does not necessarily mean that the firm will be able to recover the cost in higher prices for finished goods. It may or it may not. Even if the firm is able to raise its selling prices sufficiently to offset the increasing cost of replacing inventories, there is no net addition to profits. There is simply enough additional income to offset the higher replacement costs of inventories.

III

The way in which failure to charge increases in the cost of replacing inventories against profits causes the statement of profits to be inflated can be made plain by a simple illustration. Let us assume that an enterprise makes no operating profit at all. Let us assume, however, that there is an advance in the price of raw materials so that there is a rise of $100,000 in the cost of replacing the inventories consumed during the period. This increase in the cost of replacing inventories does not, of course, mean that the enterprise will be able to raise its selling price sufficiently to recover this additional cost. Perhaps it can, perhaps it cannot. Let us assume that the enterprise is able to raise its selling prices by exactly enough to offset the rise in the cost of replacing its inventories. As most corporations report profits today (although the corporate income law does not require it), this firm would not charge the rise in the cost of replacing inventories against the gain of $100,000 from the rise in its selling prices. The management would report a profit of $100,000. It is obvious that this report would be misleading to its stockholders, its employees, and its customers, because the $100,000 is not available to pay dividends, to increase wages, or to reduce prices. It is needed in order to enable the enterprise to maintain the same physical volume of inventories—that is, to the volume required by its current rate of operations. If the enterprise were to distribute all or part of the $100,000 in dividends, for example, it would really be making a distribution of capital because it would be reducing its capacity to produce. Hence it would be compelled either to curtail operations or to borrow in order to maintain its inventories and its capacity to produce.

IV

Corporate profits are also overstated because the rise in the cost of replacing plant and equipment is treated as profit. It is difficult to estimate the precise amount of this overstatement but it is substantial. Part of the difficulty arises from lack of precise information concerning the rise in replacement costs during the last eight years. In addition one cannot know accurately today what will be the cost of replacing plant and equipment which is partly worn out today, but which may not have to be replaced until five or ten years hence. There can be no doubt, however, that the cost of replacing plant and equipment has risen substantially. The average wholesale price of finished goods in 1947 was 79% above 1940. Today finished goods on the average are selling about 100% above 1940.

An enterprise which expects to continue in business must obviously replace its plant and equipment as they wear out. If it distributes in the form of dividends, higher wages, or lower prices, income needed to replace plant and equipment, the enterprise is, in effect, living off its capital, because it will have to bring in new capital to maintain its productive capacity. In other words, only after management has set aside enough of current income to maintain the productive capacity of the enterprise, does it have funds which may be properly regarded as available for dividends, higher wages, or lower prices.

Depreciation Charges Inadequate

Despite the large rise in the prices of finished goods during recent years, the depreciation charges of American corporations have risen very little. In 1947 they were only 20% above 1940—$4.6 billion as compared with $3.5 billion in 1940. In 1946 depreciation charges of American corporations were $4.3 billion. Since one does not know the ultimate cost of replacing present plant and equipment, one can only make a rough estimate as to what present depreciation charges ought to be. Possibly the movement of prices during the next few years will be downward—though I am skeptical that this will be the case for most finished goods, because wages, as measured by hourly earnings, have more than doubled since 1940, and therefore, there has been only a moderate rise in output per manhour. Certainly it is conservative to assume that the wholesale prices of finished goods, which are now 100% above the war, will average at least 60% above prewar in the foreseeable future. Hence, if one may assume that depreciation charges of American corporations were approximately correct in 1940, they should be at least 60% larger today. This assumes that there has been no appreciable increase in the size of the plant to be depreciated—although some increase in the size of the plant has occurred. If depreciation charges had been 60% above 1940, they would have been about $5.6 billion in both 1946 and 1947 instead of $4.3 billion in 1946 and $4.6 billion, as they were in 1947. Depreciation charges in American industry have been as follows:

	Total business depreciation (billions)	Corporate depreciation (billions)
1940	$7.2	$3.5
1945	10.7	5.9
1946	9.3	4.3
1947	10.3	4.6

In other words, failure to charge adequate depreciation led corporate profits to be overstated by about $1.3 billion in 1946 and $1.0 billion in 1947. There is no evidence that many corporations have corrected this understatement of their depreciation charges. Hence, the understatement for 1948 will probably be no less than in 1947.

The present low depreciation charges of American corporations may be defended on the ground that increases in these charges to take account of the permanently higher costs of replacing plant and equipment are not an allowable cost for income tax purposes. This defense may be a just criticism of present corporate tax law, but it does not justify managements in counting increases in replacement costs as profits and thus in overstating the amount of income available to pay dividends, to increase plant, to raise wages, or to reduce prices. Some companies, rather than increase depreciation allowances, may prefer to set up special reserves to meet the rise of recent years in the cost of construction and equipment. A few companies have set aside such reserves, but the number appears to be small.

V

A correct statement of the profits of industry reveals important differences from the reported profits. In the first place, it reveals that real profits in 1946, the year of transition from war production, the year when millions of veterans were being absorbed into industry, and the worst year for strikes in the country's history, was not in reality a very profitable year. Actual profits were less than in 1945 and were scarcely any greater than in 1940, when the dollar volume of business was little more than half as large. In the second place, the corrected profit figures show that the increase in operating efficiency in the last two years has been considerably greater than is indicated by reported profits. This is particularly true of comparisons between 1947 and 1948. The reported figures on profits show little rise between 1947 and 1948. They seem to indicate that industry has thus far obtained little benefit from its large expenditures on plant and equipment in 1946 and especially in 1947. The corrected figures, however, show a large gain in profits between 1947 and 1948, indicative that the expenditures of last year and the year before on new equipment and plant are paying off. In the third place, the corrected figures on profits show that even in 1948 real profits are substantially below the reported ones. In the fourth place, the corrected profit figures show that boards of directors have been wise in not raising dividends any faster. The corrected figures show that a high fraction of real profits was paid out in dividends—86.1% in 1946, 57.5% in 1947, and 40% in the first-half of 1948. The usual year end dividends this year are likely to raise total dividends up to half of real profits.

VI

Rigidity of Accounting

Why have American corporations so generally overstated their profits during the last few years? The principal reason probably is that accounting is a conservative and conventional art, and accountants are slow to adapt their methods to new conditions and new problems. Accountants are not used to taking account of permanent changes in the price level. An additional and important reason is the fact that business managements take an understandable pride in showing large earnings. Especially when earnings in general are rising, no management likes to show less favorable results than other managements. Consequently, there is a strong temptation during periods of expansion for managements to overstate profits. Never has this been done, however, on a scale approaching that of the last three years.

VII

Are profits excessive? Various yardsticks are used in an attempt to determine whether or not profits are excessive. One yardstick is the percentage of profits to sales; a second is the percentage of profits to the national income or to the gross national product; a third is the percentage of profits to owners' equity; a fourth is the percentage of profits to the original equity investment in the enterprise; a fifth is the percentage of profits to the cost of replacing the present capacity of the enterprise. None of these yardsticks is entirely satisfactory. In fact, most of them have very little bearing on the crucial issue. Let us, however, briefly review the logic of these yardsticks and the present facts.

(a) **Ratio of profits to corporate sales:** It is reasonable to expect corporate profits to fluctuate more or less with the volume of corporate sales. For example, if there is a big drop in corporate sales, one would expect the total volume of profits to fall. The volume of profits can hardly be expected to fall with a drop in business unless it rises with an increase in business. Profits are a residual income—that is, they begin to accrue only after certain fixed expenses have been met. Consequently, one would expect the fluctuations in profits to be wider than the money volume of business—that is, one would expect profits to fall faster than sales during periods of contraction and to rise faster during periods of expansion. As a matter of fact, this is what usually happens. Indeed, during periods of contraction profits usually fall so fast that they disappear altogether. In periods of expansion profits usually rise faster than the volume of business.

Profits and Sales Volume

The present period of expansion is different from most preceding ones in that reported profits have risen only slightly faster than the volume of corporate sales and correctly stated profits have risen only about as fast as the volume of sales. In 1940, reported profits were 4.7% of corporate sales; in 1946, 5.1%; in 1947, 5.7%; and in the first-half of 1948, 5.8%. Correct profits in 1940 were 4.7% of corporate sales; in 1946, 2.6%; in 1947, 3.8%; and in the first-half of 1948, 4.4%.

The ratio of corporate profits to sales sheds no light on the question as to whether or not profits are "inadequate" or "excessive." The answer to this question depends upon how fast the community wishes industry to expand. If profits are causing industry to expand faster than the community would like to have it expand, they are excessive. If profits fail to bring about as rapid an expansion of productive capacity as the community would like to have, profits are inadequate.

(b) **Ratio of profits to the gross national product:** Since profits accrue only after certain fixed costs have been met, during periods of contraction they tend to drop faster than the gross national product and during periods of expansion to rise faster than the gross national product. The recent period of expansion, however, is unusual in that the ratio of reported profits to the gross national product has increased only moderately and the ratio of correct profits to the gross national product has scarcely increased at all. In 1940, reported profits were 6.4% of the gross national product; in 1946, 6.1%; in 1947, 7.8%; and in the first-half of 1948, 8.2%. In 1940, correct profits were 6.4% of the gross national product; in 1946, 3.1%; in 1947, 5.2%; and in the first-half of 1948, 6.1%.

The ratio of profits to the gross national product has no bearing on the adequacy or inadequacy of profits because it does not show whether or not profits are bringing about the rate of industrial expansion desired by the community.

(c) **Ratio of profits to owners' equity:** One of the most widely used and most misleading measures of profits is the ratio of profits to owners' equity. It is difficult to see why this measure of profits is ever used. Owners' equity is only loosely related to the original investment in enterprises. It is diminished by losses and by mark-downs and write-offs which represent recognition by management that investment mistakes have been made. Between 1930 and 1933 losses and mark-downs reduced the net worth of American corporations by nearly $32 billion, or nearly one-fifth. A corporation may show a high return on the owners' equity for the simple reason that the concern lost money heavily for a number of years and the owners' equity in consequence has been greatly reduced. The recipients of this high rate of return on owners' equity would certainly not regard themselves as fortunate. The high rate of return would not measure business success so much as it would measure business failure. Furthermore, the return on owners' equity gives no indication as to whether or not profits are bringing about as fast an expansion of industrial capacity as the community needs or desires.

(d) **Ratio of profits to original cost of the equity investment in business corporations:** Original equity investment includes not only the investment made when the enterprise was established, but new investment from plowed-back earnings and proceeds of new security issues. This measure is superior to owners' equity because it is not distorted by business losses. Nevertheless, it has no bearing on the adequacy of profits. The original cost of present plant and equipment may be far above or below present costs of plant and equipment. It is present costs of construction and equipment, not costs 20 or 30

years ago, which determine the profits necessary to attract new capital into industry.

(e) **Replacement cost of plant and equipment:** This measure of profits is superior to any of the others because it is based upon present costs of construction and equipment and, therefore, represents the rate of return which might be expected on new plant and equipment put into use today. By replacement cost, of course, is not meant the cost of replacing identical plant and equipment, but the cost of providing an equivalent amount of modern productive capacity. Allowance must, of course, be made for the fact that modern machines and equipment may require less labor to operate than older equipment. These considerations complicate the problem of measurement, but do not affect the essential principle. The principle is that prospective profits must induce the investment of capital at the present cost of construction and at the present prices of equipment. Hence, the comparison which comes closest to determining whether profits are inadequate or excessive is the return which profits yield on plants built at present costs of construction and present prices of equipment.

Even this measure is not a conclusive answer to the question, "Are profits too high or too low?" One reason why it is not conclusive is that present profits are not necessarily an indication of future profits—and it is the prospect for future profits, not present profits, which determine the rate of investment. Another reason why present return on replacement costs does not tell us whether profits are too high or too low is that it does not indicate whether investment is occurirng as fast as the community would like to have it occur or needs to have it occur. If investment is not occurring as fast as the community would like it to occur, one must conclude that the prospect for profits is too unfavorable, unless there is some special reason unrelated to profit which prevent investors from making a normal response to the prospect for profits. On the other hand, if investment is occurring faster than the community wishes for it to occur, one must conclude that the prospect for profits is too favorable.

VIII

How does one determine whether or not investment is occurring as fast as the community would like it to occur or faster than the community would like it to occur? There is no entirely satisfactory measure. One way is to observe the actual demand of the community for goods. If industry is producing at capacity and if people bid up the prices of goods, this indicates that people are willing to spend more for goods than they have been spending and that they are willing to take more goods at the previously prevailing prices than industry can produce. Hence the rise in prices and in profits is conclusive evidence that people wish industry to increase its productive capacity. The size of the rise in prices and in profits is a measure of the urgency of the public demand for more goods and hence for more productive capacity. Of course, when profits are obtained by a restriction of production, this reasoning does not apply. During the last several years, however, industry has been operating at capacity and has increased its work force as rapidly as men have become available. Profits which are not the result of restriction of output and which merely express the community's desire for an expansion of output and of productive capacity cannot be regarded as excessive—unless one is prepared to find fault with the community for demanding more goods and more productive capacity.

Another way of measuring the adequacy of profits is by making a direct analysis of the need of the community for more productive capacity. At the present time there is no doubt that the needs of industry for more capacity are very large. There are four principal reasons for this:

(a) During most of the last 20 years there has been an abnormally slow increase in the quantity of plant and equipment per worker. One reason has been the severe depression. During most of the depression, capital was not replaced as rapidly as it was being worn out. Another reason was the war, which also limited the rate at which capital could be replaced in most industries. During the 20 years, 1910-1929, the increase in real estate improvements and capital per worker, expressed in dollars of constant purchasing power, was 21.9%.[1] At the end of 1947, plant and equipment, per worker, expressed in dollars of constant purchasing power, was 9.1% less than at the end of 1929.

(b) The need of industry for plant and equipment has been accentuated by the rapid increase in the labor force. The great demand for goods which has followed the war has caused the labor force to increase more rapidly than was expected. At the present time the labor force is as large as the census predicted that it would be in 1950. In order to permit the same increase in plant and equipment per worker during the 20-year period 1929-49 as occurred in the preceding 20-year period, the plant and equipment of industry would need to be increased by about $70 billion at present prices.

(c) The rise of powerful labor unions means that the wage demands of organized labor will be greater than ever. These demands cannot be met without a rise in prices unless output per manhour increases substantially as fast as wages. In the past, output per manhour has increased a little less than 2% a year. It is unlikely that unions will be content with putting up money wages only 2% a year. In the 12 months October 1945 to October 1946, hourly earnings in manufacturing rose 14.3%; in the next 12 months 11.3%; and in the next 12 months, 8.4%. If unions make as stiff wage demands as they have been making during the last three years, productivity will have to rise about four times as fast as it has risen in the past in order to avoid a steady rise in prices. Bear in mind that a price rise of only 2% a year would reduce the purchasing power of a life insurance policy or of pensions or of government bonds nearly one-half every generation and by considerably more than one-half during the span of an ordinary working life. The stiffer the wage demands of labor, therefore, the more rapid must be the increase in the productivity of industry. The increase in productivity requires more and better capital per worker. Hence the stiffer the wage demands of unions, the greater become the capital needs of industry.

(d) Upon the rapidly growing private demand for goods is being superimposed a large and growing public demand for goods. To begin with, cities, counties, and states have huge accumulated needs for public works because they were forced during the war to curtail construction activities. In some parts of the country these needs have been greatly accentuated by large shifts of population. The steady increase in the number of automobiles and trucks is making the roads of the country obsolete. Plans for public housing, for large irrigation works and public power projects, for a much larger postwar military establishment than anyone dreamed would be necessary, and international policies which require that American industry furnish large quantities of goods all increase the need of industry for productive capacity. It is a striking fact that all of these demands for goods by the government, especially the demands for the military and for foreign policy, run to far larger figures than anyone would have dreamed even as late as 1945. The fraction of the gross national product taken by government is rising and will probably continue to rise. In 1929 it was 8.2%; in 1947, 12.1%; in the third quarter of 1948, 14.7%. It will be larger next year.

American industry can meet the huge demands which are being made on it provided the managers of industry raise their sights and provided the government is willing to encourage industry to increase its capacity. I do not believe that the American people are willing to permit large quantities of goods to be diverted into increased armaments and into help for other countries if this diversion means either a drop in the American standard of living or a serious impediment to the rise in the American standard of living. Hence new great demands of the government for goods mean that the output of industry needs to grow faster than ever and that industry needs more than ever to increase and to improve its plant and equipment.

IX

Have the present and recent prospects for profits been sufficiently favorable to permit industry to increase its plant and equipment at a reasonable rate? I think that the answer to this question is "Yes." Corporations which wished to expand their capacity have had to compete with a large number of demands, for capital goods—there has been an enormous demand for capital goods because ordinary replacements were not made during the depression and the war. There has been an enormous demand for capital goods by farmers and unincorporated enterprises and a large demand for goods for housing construction. There has been a great demand for goods by state and local governments and the national government. The budget of the Federal Government has been running about 75% above the usual wartime estimates of postwar budgets. The great demand for durable consumer goods, such as automobiles, has limited the supply of steel for capital goods and has thus limited the output of capital goods. I do not know what share of the output of capital goods has gone into expanding the capacity of corporations or whether corporations have had enough money to obtain their share of the output of the capital goods industries. I suspect that they have obtained their share but I cannot prove it. The proportion of the net national product represented by net private investment in the United States has been large by past standards—just over 10% in the first half of 1948, 7.6% in 1947, and 7.4% in 1946 in comparison with 7.4% in 1929, 4.2% in 1937, and 4.9% in 1940. Hence, it appears plain that industry as a whole has done a good job of expanding plant and equipment during 1946, 1947, and 1948. One cannot criticize profits for failing to bring about as rapid an expansion as the capital goods industries were capable of meeting.

X

Financing Industry Expansions

How has the expansion of industry been financed during the last several years? When one looks at the sources of the money which has paid for the recent expansion of industry, one has misgivings as to whether the prospect for profits in American industry is sufficiently bright. Three things stand out conspicuously: (1) corporations have had only indifferent success in raising money from the outside and have had to rely to an abnormal extent upon plowing back profits; (2) the money raised from the outside has come mainly from the sale of bonds and notes rather than from the sale of equity securities; (3) the money from the outside has come in the main from institutional buyers rather than from individuals. Investments in American corporate industry seems to have very little attraction for the American public.

Let us look into these matters more closely. As a background for analyzing the recent sources of investment funds, let us note several facts about an earlier period—the period 1910 to 1929:

(a) The largest single source of investment funds was retained earnings. During 20 years, 1909 to 1929, retained earnings were $37.3 billion, issues of stock, $21.3 billion, and bonds and notes $27.1 billion.[2] This means that outside funds fell far short of meeting the capital needs of industry.

"(b) Issues of stocks and bonds together were more important than retained earnings.

(c) Issues of bonds and notes were considerably more important than stocks—$27.1 billion between 1910 and 1929 in comparison with $21.3 billion for stocks.

(d) Slightly more than half profits were kept in the business. Between 1910 and 1929 retained earnings were $51.8 billion or 52.3% of total profits of $99.1 billion.[3]

The two and a half years, 1946, 1947, and the first half of 1948, offer several important contrasts with the past:

(a) Retained earnings have been more important in relation to new issues of stocks and bonds as a source of new money than in the past. In other words, outside funds have been less adequate than ever. In 1946, 1947, and the first half of 1948, corporations retained $24.9 billion of *reported* profits and raised $11.2 billion by the issue of new securities. In view of the fact that reported profits greatly overstate real profits only part of the retained profits can be regarded as available for increasing the capacity of business concerns. This part was $10.1 billion for the years 1946, 1947, and the first half of 1948. Although corporations raised $11.2 billion of new capital by public issues, retained earnings out of corrected profits were somewhat larger in relation to proceeds from new issues than in the period 1910 to 1929.

(b) Issues of bonds and notes were considerably more important in relation to issues of stocks than between 1910 and 1920. In fact stock issues represented only 30% of all domestic private issues exclusive of refunding issues in 1946, 1947, and the first half of 1948.

(c) There has been a tendency for the relative importance of stock issues to decline. They were less in absolute volume in 1947 than in 1946, although bond issues went up from $2.1 billion to $3.5 billion. In the first half of 1948 stock issues were only 20.5% of private domestic issues exclusive of refunding issues. In 1947 they were 25.1%.

(d) A negligible amount of outside money has been raised by corporations during the last several years by the direct sale of securities to individuals. In 1946, 1947, and the first half of 1948 individuals increased their net investment in corporate securities by only $2.5 billion. This is only 22.2% of the private domestic security issues (exclusive of refunding issues) during this period.

Individual Savings Not Lacking

(e) The failure of individuals to invest in the securities of corporations was not due to a lack of individual savings. Total liquid savings of individuals during 1946, 1947, and the first half of 1948 were $23.0 billion, or more than nine times the amount which individuals put into corporate securities. Even when one deducts the large amounts which individuals put into government and private insurance, which was $17.2 billions during this period, individuals put less than half the residue of their liquid savings into corporate securities.

Total personal savings of individuals were, of course, larger than liquid savings—$25.9 billion for 1946, 1947, and the first half of 1948. Less than one-tenth of all personal savings went into corporate securities and less than one-third of all personal savings exclusive of the part devoted to insurance.

XI

The most important questions which emerge from this analysis of recent profit experience is "How can American corporations induce individuals to buy large amounts of corporate securities and in particular how can corporations induce individuals to buy larger quantities of equity securities?

A widely-offered suggestion is that corporations pay out a larger proportion of their profits as dividends. This suggestion comes in the main, I think, from persons who are misled by the profit reports of corporations. The proportion of actual profits paid out in dividends has been fairly high—86% in 1946, 67.5% in 1947, and about 40% in the first half of 1948. As I have indicated, year-end dividend declarations in 1948 will undoubtedly raise corporate dividends to half or more of corrected profits.

Dividend Payments

A larger disbursement of corporate profits would not, in my judgment, materially assist corporations in selling stock. In the first place, one must take account that corporations for the last six or more months have been under a special disadvantage in selling stock, because of the deterioration of the country's international relations and because of the widespread belief that there would be an early recession. In the fall of 1947, 75 out of 100 economists polled by the F. W. Dodge Corporation predicted a recession in 1948—most of them in the early spring. In the spring of 1948, the preponderant view of 100 economists polled by Montgomery Ward and Company was that there would be a recession in the fall. More recently a second poll by the F. W. Dodge Corporation has produced the forecast for a recession some time in 1949. In the second place, even if these special conditions did not temporarily interfere with the sale of stock, I do not think that higher dividends in themselves would be particularly effective in making stock more saleable. Most people have enough common sense to know that the value of a security depends in the main upon its future earnings, not the present rate of dividends. Higher dividends would not cause people to make more optimistic judgments of future earnings. The people who would be most affected by higher dividends are people in the middle and upper income groups. These people pay high personal income taxes. Hence a large part of any

(Continued on page 34)

1 This estimate is based upon the figures of Kuznets in his "National Product Since 1869," page 228. Real estate improvements and equipment, expressed in 1929 prices, were $109.1 billion in 1909 and $175.2 billion in 1929. During the same period the labor force increased from about 36.7 million to 48.2 million. Real estate improvements and equipment per worker increased from $2,980 per worker in 1909 to $3,634 per worker in 1929.

2 Slichter, S. H., "Enterprise in Postwar America," p. 8, and T.N.E.C., "Profits, Productive Activities and New Investment," Monograph No. 12, p. 45. The issues of stocks and bonds are exclusive of refunding issues.

3 T.N.E.C., "Profits, Productive Activities and New Investment," Monograph No. 12, p. 45.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market continues to mark time. Quality stocks point lower while secondary issues indicate resistance.

Nothing has happened since the previous column was written except the passing of days. The stock market is still in a wobbly position and the stocks that make it up act the same way.

* * *

This doesn't mean that all stocks look badly. Here and there an occasional issue makes efforts to break away from the pack, an effort which might well bring it success once the market itself permits such independent action. In line with this observation allow me to remind you that tops are usually made by the entire market. Conversely, bottoms are made with individual stocks slowly turning away from the main trend.

* * *

But if here and there, there is some revitalization, there are also other stocks which have danger signs posted all around them. Here are just a few of them: Nash-Kelvinator, Union Carbide, Mack, National Cash Register, Loews, Lockheed, General Motors, Borg Warner, Amerada, American Steel Foundries, Air Reduction and others.

* * *

Under different conditions, including timing, I would be tempted to look upon the above stocks as candidates for short sales, though not necessarily at present prices.

* * *

The other side of the market picture presents stocks such as the following:

Allegheny Ludlum, Great Northern Iron Ore, American Radiator, American Home Products, American Cyanamid, Crane and Cuban American Sugar. All these forego-ing stocks have resisted the recent decline and in any turnabout could quickly add a number of points to their current prices.

* * *

You will note, however, that there seems to be a large disparity in the quality of the stocks in the two categories. That in itself should indicate certain things to you.

* * *

When the picture will be resolved is a subject you can get into plenty of arguments about. Off hand, I would say that nothing important will happen until there is either sufficent information on President Truman's State of the Union speech, or the speech itself.

* * *

A partial indication of the direction of the Truman Administration winds can be seen in the new anti-trust actions recently started, or to be started. With a friendly Congress and a White House it is doubtful if American Telephone would be facing anything stronger than complaints of wrong numbers. But, according to Washington grapevines, American T & T is in for some heavy blasting.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Business Profits Exaggerated!

(Continued from page 33)

increase in dividends would go to the government in the form of higher taxes rather than to the stockholders in the form of larger disposable income. Under these conditions a higher dividend rate has little effectiveness in inducing persons in the middle or higher income brackets to buy securities. If the corporations of the United States wish to sell securities in large quantities to individuals, they will probably have to develop a market for them among persons whose incomes are low enough so that the income tax does not rob the security of a large fraction of its return. For the time being the corporations must plan to raise capital in the main by the sale of bonds and by plowing back earnings. The larger their sales of bonds, the larger should be the proportion of earnings plowed back.

XII

The willingness of corporate managements to plow back a substantial proportion of profits has had great advantages for the country. In the first place, it has enabled industry to make large expenditures on much-needed increases in its capacity despite the inadequate supply of outside funds. In the second place, it has limited the extent to which industry has financed capital expenditures by methods which brought about an expansion of credit, such as borrowing from commercial banks or insurance companies. The inflationary effect of larger dividend payments has frequently been overlooked. Larger dividend payments, of course, would have meant that stockholders would have received some increase in income after taxes. Most of this increase would have been spent for consumer goods. Since industry has been operating at capacity, the increase in consumer goods would not have been large, and it would have been accomplished at the expense of the output of capital goods. The prices of consumer goods would have been bid up still higher. Corporations would have been compelled to finance capital expenditures to a greater extent by borrowing either from commercial banks or from life insurance companies. Borrowing from commercial banks is inflationary and borrowing from life insurance companies is inflationary also if it has to be financed in part by the life insurance companies selling government bonds to the Reserve Banks—as has been going on this year. In the third place, the reinvestment of profits makes industry more competitive because it increases the productive capacity of industry.

One must wish that industry were less dependent upon internal funds for expansion, that it were able to give stockholders a larger proportion of current earnings, and that the American public were more willing to put its savings into the stocks of American corporations. The government tax structure substantially discourages the ownership of stocks in corporations, and the problem will probably not be solved until the government is willing to modify its tax policies. Reform of the Federal tax system, however, though necessary, is not likely to be sufficient to solve the problem. Even before the income tax became stiff and before there was double taxation of income distributed in the form of dividends, corporations found outside funds insufficient for their needs. The kind of securities which industry offers do not seem to appeal to the large number of potential investors in the middle income brackets who wish a considerable degree of security, some chance to participate in the gains of expansion and technological progress, and some protection against a possible long-run rise in prices. Perhaps investment trust can supply the answer. Perhaps the answer is in a new type of security —a participating preferred stock. Until a solution is found, the largest single source of money for plant expansion will come from retained earnings.

Robt. McCrary Rep. Of Television Shares

LOS ANGELES, CALIF. — Robert H. McCrary has been appointed Pacific Coast representative of Television Shares Management Company, of Chicago, sponsors and distributors of Television Fund, Inc. Prior to his new position, Mr. McCrary was associated with Bateman, Eichler & Co., Los Angeles, and earlier was a partner of McCrary, Dearth & Co., Des Moines, Iowa. During his 25 years in the securities business he has served on various committees of both the Investment Bankers Association and the National Association of Securities Dealers.

Robert H. McCrary

As We See It

(Continued from first page)

matter is, however, that the document has regularly been and doubtless will this time be devoted almost wholly to (1) at least doubtful economic analysis tinged throughout with political considerations, (2) a preprint of a considerable amount of statistical material which normally appears in one or more of the regular government publications at a somewhat later date, and (3) the presentation of a number of "estimates" or "derived" data which regular departments of government have not as a rule felt warranted in presenting to the public, presumably because of doubts of their validity.

A Political Apologia

The message on the State of the Union has long been more or less a political document, but in recent years has become outrageously tinged in this manner. According to custom of recent years, it is normally couched in rather general terms, and may well leave its real meaning at many points in doubt pending more precise recommendations or demands upon Congress. Of course, the framers of the Constitution had no such role in mind for the President, but that is water over the dam—in fact, water that is far down stream from the dam long ere this. The public doubtless awaits this message with interest this year, but the matriculate will expect to find it more or less what the journalist calls a rewrite of previous messages of the sort and of the recent campaign utterances of the President. If it brings here and there a bit of clarification of the vague and often unrealistic statements or promises of candidate Truman, that is about all that can be expected of it this year. A really working knowledge of what the President intends to do and wants Congress to do, at least during the earlier years of his new term, will in all probability have to await more specific communications to Congress.

The Budget message obliges the President to come somewhat more nearly down to earth, and informed interest will this year center in very substantial degree upon this document. Of course it is true that there are many ways of making black appear white—or, were we inclined to pun, of making red appear black—and one may rest assured that the politicians know most of them, but no way has yet been discovered of taking the "curse of the dollar sign" from this document. The accounts as reguarly presented constitute a trap for the unwary and naive—assuming they are sufficiently interested to undertake to reach an understanding of the true meaning of the figures and estimates—but careful study of the financial statements which the President is unable to avoid in this document is more likely to prove of immediate and concrete assistance than is the case with the other two messages the President is now said to be in the process of preparing.

Generosity to Agriculture

Here doubtless the matriculate will be able to find considerable evidence as to the degree in which the President intends, for the present at least, to give literal meaning to some of the vague statements made during the campaign. The implications will not always lie on the surface, of course, but they can not always be too fully concealed from the prying eye. The Administration's generosity to agriculture, for example, upon which the farmer appears to be depending heavily, will be more or less plainly measured by items which the President must include in his budget message. Much the same is to be said of outlays for rearmament and foreign aid. Naturally, the President may presently change his mind. He may present preliminary estimates now. He may not always make it wholly clear just what estimates he is handing to Congress, but the opportunity for evasion or equivocation or plain meaningless generality is not nearly so great as in the case of the other more general type of message or report.

The Administration's real position on taxation, and in particular, its attitude toward the reestablishment of the excess profits tax or the enactment of higher corporate income levies, can hardly be left in great doubt after the budget message is handed to Congress. President Roosevelt, upon occasion, left certain specific matters for more detailed analysis and recommendation in later special messages, but there appears to be no good warrant for such procedure this year. If such a policy is pursued it will probably mean either that the President has not yet made up his own mind or that he is uncertain about the general state of business.

What Ahead in Business?

The fact of the matter is that indications have not been wholly missing that the Administration is now less certain

of some of its judgments placed in evidence during the campaign. Prices have grown somewhat hesitant of late. The upward movement had lost some of its momentum even during the speech-making in the autumn. Since the election, signs here and there have appeared that have caused some observers to wonder about the immediate course of business. It is true that optimism appears still to be the prevailing sentiment of the day, but there is less tendency in Washington to shout about the prospects of inflation. There are a good many practical businessmen who believe all this a mere passing phase, but the politicians obviously do not wish anyone to be able to say that any recession of consequence, particularly if it should entail extended unemployment, is a consequence of their actions.

It is for such reasons as these that a good deal of reappraisal is taking place in the national Capital at the present moment, and some searching of minds and hearts about what it would be wise to do. It is safe enough to guess that the general tenor of much that the President presently has to say to Congress, and in particular certain of his budgetary recommendations, will be guided in considerable measure by the course of business during the next few weeks and the real outlook will be measured in no small degree by what the Administration does.

Capital—The Priceless Ingredient

(Continued from page 4)

a reasonable maximum production nor the lower costs which should accompany it.

Social and Economic Booby Traps

Not long ago we were tagged as a mature economy, with nothing more to do and no place to go. We have since disproved that fallacy. Our danger is from other sources. It is from being milked of our ability and incentive to accumulate and use capital as we have in the past, and from unconsciously allowing ourselves to fall into a series of social and economic booby-traps.

Among these, inflation heads the list. It is an insidious and progressive disease, distinguished by the fact that its early symptoms are pleasingly stimulating. Allowed to run its course, it is socially and economically destructive. It is the principal tool of the demagogue. It always has been a tax on savings and a capital levy. There are no recognized exemptions. While everyone pays the penalty of this tax, no one is allowed a vote on it.

Inflation has been the most destructive force in history, other than war. There is no more certain means of destroying the vitality of a Nation. Its source is political and governmental action, and these are the only forms of action which can stop it.

In the abstract, the trouble with inflation is that, like sin, everyone is against it in principle. Everyone thinks it should be stopped, but it should always be stopped only for the other fellow, and any apparent benefits or pleasures arising from it should be continued for me. Mutual inflationary back-scratching by pressure groups using organized political action to acquire, perpetuate, or expand props and splints from the public purse are the real obstacles to effective anti-inflationary action.

Proposals For More Controls

To meet the problems, we are facing proposals to reestablish forms of wartime controls in a peacetime economy, and to transfer an increasing area of responsibility and decision to the State. That is a process of removing the power of decision from the producer and consumer. It is a process of imposing controls and restrictions on the public, while the enlarged activities of government continue without restrictions. The fact that these are proposed indicates an intent to proceed with inflation and conceal its symptoms.

Abroad, State responsibility, in the form of Socialism, has been distinguished by inflation, confusion, and the perpetuation of a low standard of living and insecurity. In these Socialistic and Totalitarian countries, the bitter complaint of the workers is that though, through their government, supposedly they own and operate the business and industry of the nation, they cannot make a good living.

Certainly it would be a tragic commentary on our present situation if we should reestablish government price controls, rationing, and allocations at a time when England has begun progressively to release them, after having had the benefit of some $6 billion of our production and wealth.

The State Planners always forget it is difficiult to regiment people without having some evasion or resistance. They forget that it is not possible either to collect or to value the facts relating to future events because these are always outrun by the speed and variety of the events themselves. Statistics and charts tell us nothing certain about the future because it depends on human behavior and the unforeseen results of that behavior. Controls merely suppress the otherwise visible symptoms of unbalances and keep them out of the statistics. The statistics are better controlled than the results; they omit black markets and shortages.

While I believe this trend will go down in history as one of the Great Delusions, it has its immediate dangers to us. Actually there is no limit to what we can do if the traditional sources of our accomplishments are not smothered by confusion, restrictions, taxation, and inflation. At the moment we are deep in political uncertainty. All the normal risks and problems of business and investment are multiplied by it. Coupled with obstacles and difficulties already created, the present outlook is not an encouraging one.

With all our statistical prosperity, we have been plagued by a shortage of risk capital. During a time when the need for resources for investment to expand production has been greatest, government has been using far too large a part of the total resources of the community for too long a time for its own purposes, and proposes to use even more. With a declining rate of savings, an artificially low interest rate, and new equity capital not coming into business and industry, there is doubt about where our future capital is coming from, and how we can continue to expand enterprise and production. The shortage of new capital threatens the continuation of the present level of employment and production, the further expansion of output, the development of new products, and our ability to absorb some 500,000 or 600,000 new workers each year.

Equity Capital Lacking

I think it can be fairly said that the present lack of the traditional desire of the American people to invest in commercial and industrial equities is attributable to two factors. One is the continued liquidation through taxation and inflation of the usual sources of capital accumulated and used for this purpose. The other is a public vote of protest against the progressively unfavorable climate in which business has been obliged to operate.

New equity capital is not easily available, and the sources of risk capital have begun to dry up. Our present level of production and our 60 million jobs are being financed almost entirely by loans and the retained earnings of business and industry.

In the two and one-half years preceding June 30 corporations invested about $64 billion in plants and equipment, increased inventories, and accounts receivable to meet expanded business volume at present high prices and to maintain and create jobs. Only about $3 billion of this amount came from new stock issues (new equity capital). The rest came from debt and internal resources in the form of retained earnings, depreciation reserves, and the reduction of other assets.

While spending more billions of dollars in each successive year since 1945 for new plant and equipment, the amount of financing provided by issues of new common and preferred stocks has been steadily declining. Last year new stock issues amounted to only $1.2 billion, or about 26% of the new issues business. This year stock issues were only about 20% of the total in the first six months, and 9% in the July-October period.

New enterprises, whether large or small, have not been easily capitalized. Established business has had to depend more on borrowing and less on new capital. Industry has been forced to resort to banks and insurance companies to meet normal capital needs, instead of acquiring its needs for capital from the savings of the people. This is not a healthy direction for the business borrower or the lender, and both know it. Also, it is not a healthy director for the future development and stability of our economy.

Even the present level of jobs and production can be impaired by an inability to finance them at increasingly higher prices of cost components. In fact, it can continue only so long as business can create and retain capital from earnings or can obtain it from borrowing. Both have their limits. And suggested new taxes will directly reduce one of these limits and restrict the other. What we are accomplishing today can be stopped by the combination of an inability to obtain new capital from its normal sources, and a level of taxation which makes it impossible to retain sufficent earnings to provide the needed capital.

Merely to replace worn-out equipment at today's high prices and maintain the efficiency of existing plants requires at least double the usual depreciation rate, because of the difference between present prices and original costs. The extra dollars must come from earnings, after taxes. All replacements, maintenance costs, the costs of changes to meet rapid obsolescence, and the cost of research are correspondingly high. They are required expedítures to maintain present jobs and insure future progress. In addition, there has been a tremendous investment in plant expansion and improvements which has provided more jobs and more production. In the three years since 1945 industry will have spent about $47 billion for new plant and equipment. This tells its own story of capital needs.

At the same time, over a period of years, our high graduated personal taxes and inflationary price increases have seriously reduced the accumulation of savings normally made available for risk capital. In 1947 all Federal, State, and Municipal tax collections added up to the staggering sum of nearly $50 billion, or 25% of our national income. This is nearly $350 a year for each of the 144 million residents of this country. But each of the 144 million residents in this country do not pay $350 a year in taxes. Their individual share of the tax burden is paid by those who normally would have a surplus of income for investment.

The effect of this is not replaced by a larger total of savings on the part of those who pay little taxes and do not use these savings for equity capital investments. An increasing part of the savings accumulations have become institutionalized in the form of bank accounts, life insurance, pension funds, government savings bonds, payment on personal debt, and for personal capital goods, and not directly to capitalize production or new enterprise. These funds reach the latter only through institutions which invest in promises to pay (or business debt) and do not invest in equity capital.

This tendency has been multiplied by individual worry over the level and trend of inflation, the high cost of living, the prospects for higher taxes, the possibility of more government controls, and the steadily mounting cost of business operation which results in a dangerously high break-even point. The net result of the general uncertainty is a magnified desire for personal security, represented by cash resources, not investments. The risk factors are too great and not measurable. What capital is accumulated avoids use. This does not result from a failure of enterprise, but from actual and prospective interferences with enterprise. The long-term result is an eating away of the origins of capital, leaving the government as its principal or only source which, in turn, is collectivism and the socialized State.

Basis of Our Progress

In this country of ours we have developed the greatest productive power in the world. A power so great that we can produce more for ourselves than any other country and a substantial surplus for the rest of the world, in both peace and war. Our wealth grew not from what our people produced and consumed, but from the surplus left from their efforts which transformed the natural resources of the earth into products useful to and desired by other men.

Both the production and job increases have come from the amount of annual savings and investment, and because of this, and for no other reason. Year after year these funds were used to improve the quality and increase the quantity of the nation's productive equipment—and, hence, the number of jobs and the output and quality of goods. More tools, more plants, more power, more research, and more inventions all grew from a foundation of the surplus savings of the public and business and industry which they were willing to invest and use for productive purposes in an environment favorable to accomplishment.

In less than 200 years the people of the United States have turned a wilderness into the most prosperous and industrially advanced country in the world. In the process its people have acquired the world's highest standard of living. We have had the benefit of vast natural resources, but so have many other countries. Just having them has not produced what we have today. It is the same with manpower. We have manpower, but other nations have much more.

The fundamental instrument of this progress has been the savings of the people and the uses to which these savings have been put. We do not have to depend mostly on our muscles and personal skills. We have had a larger and more continuous increase in capital investment in horsepower, plant, equipment, and tools for each worker in this country than in any other. As a result, American workers have been able to out-produce the workers of other countries. What they did produce was a better product, at less cost, from fewer hours of work, and at greater profit to themselves. Workers in other countries have had to toil longer and harder to produce much less because they did not have the better tools and equipment, and the greater amount of mechanical energy to operate the tools, every form of which has been capital investment.

With one-sixth of the population, we have one-half of the wealth of the world, not because of our natural resources—not because of the numbers of our workers, but because we have produced much more than we have consumed, saved the surplus, and reinvested it in the production of more wealth. It is on this that the recovery and security of the rest of the world now depends. It must not be weakened or destroyed, but defended and improved.

Our own internal economic progress, an adequate national defense, and the scope and amount of our foreign aid will depend upon our productivity and the efficient use of accumulated capital. Our continued economic and financial strength and stability have become the dominant influence in maintaining the peace of the world. We cannot fulfill our obligations to a newly acquired world leadership, or to our own people, if increasing handicaps are placed upon the accumulation and use of capital and the expansion of production and enterprise. As a nation we cannot take the sources and benefits of our accomplishments so much for granted that we fail to see and prevent any possibilty of our being deprived of them, particularly by measures which will, at the same time, lead to corresponding limitations in our established personal freedoms.

John C. Warren Joins Mannheimer-Egan, Inc.

ST. PAUL, MINN. — John C. Warren has become associated with Manheimer-Egan, Inc., First National Bank Building.

Goldman Sachs & Co. to Admit

Goldman, Sachs & Co., 30 Pine Street, New York City, members of the New York Stock Exchange, will admit Edward A. Schrader to partnership on Jan. 1. T. Spencer Shore will withdraw from the firm on Dec. 31.

Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 12	100.0	100.1	99.4	97.7
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 12	1,802,500	1,804,300	1,791,700	1,710,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 27	5,617,050	5,659,150	5,604,100	5,257,250
Crude runs to stills—daily average (bbls.)	Nov. 27	§5,721,000	5,676,000	5,626,000	5,309,000
Gasoline output (bbls.)	Nov. 27	17,317,000	17,302,000	17,569,000	16,667,000
Kerosene output (bbls.)	Nov. 27	2,630,000	2,472,000	2,109,000	2,324,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 27	7,476,000	7,577,000	7,679,000	6,382,000
Residual fuel oil output (bbls.)	Nov. 27	9,477,000	9,119,000	8,853,000	8,405,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 27	93,802,000	91,244,000	91,925,000	86,319,000
Kerosene (bbls.) at	Nov. 27	26,569,000	26,908,000	26,565,000	20,619,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 27	85,151,000	84,392,000	81,593,000	61,938,000
Residual fuel oil (bbls.) at	Nov. 27	86,192,000	84,577,000	81,195,000	56,747,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 27	723,090	857,492	931,750	792,331
Revenue freight rec'd from connections (number of cars)	Nov. 27	661,165	694,406	738,232	706,822
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 2	$362,329,000	$80,802,000	$109,319,000	$214,014,000
Private construction	Dec. 2	287,841,000	32,606,000	52,328,000	137,329,000
Public construction	Dec. 2	74,488,000	48,196,000	56,991,000	76,685,000
State and municipal	Dec. 2	63,023,000	43,086,000	44,573,000	55,860,000
Federal	Dec. 2	11,465,000	5,110,000	12,418,000	20,825,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 27	9,995,000	*12,050,000	12,300,000	12,048,000
Pennsylvania anthracite (tons)	Nov. 27	1,039,000	1,205,000	1,015,000	1,061,000
Beehive coke (tons)	Nov. 27	150,200	*154,800	133,400	131,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 27	347	371	319	367
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 4	5,645,686	5,349,167	5,563,514	5,217,950
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 2	126	101	104	60
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 30	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Nov. 30	$46.82	$46.82	$46.82	$37.06
Scrap steel (per gross ton)	Nov. 30	$43.00	$43.00	$43.16	$40.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 1	23.200c	23.200c	23.200c	21.200c
Export refinery at	Dec 1	23.425c	23.425c	23.425c	21.500c
Straits tin (New York) at	Dec. 1	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Dec. 1	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Dec. 1	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Dec. 1	17.500c	17.500c	15.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 7	100.86	100.30	100.72	101.84
Average corporate	Dec. 7	111.25	111.25	110.70	111.07
Aaa	Dec. 7	117.00	116.80	115.82	116.02
Aa	Dec. 7	115.04	115.24	114.08	114.27
A	Dec. 7	109.97	109.97	109.60	110.70
Baa	Dec. 7	103.47	103.64	103.64	104.14
Railroad Group	Dec. 7	106.39	106.39	106.21	106.04
Public Utilities Group	Dec. 7	111.62	111.62	111.25	112.93
Industrials Group	Dec. 7	115.82	115.82	114.66	114.85
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 7	2.44	2.44	2.45	2.38
Average corporate	Dec. 7	3.10	3.10	3.13	3.11
Aaa	Dec. 7	2.80	2.81	2.86	2.85
Aa	Dec. 7	2.90	2.89	2.95	2.94
A	Dec. 7	3.17	3.17	3.19	3.13
Baa	Dec. 7	3.54	3.53	3.53	3.50
Railroad Group	Dec. 7	3.37	3.37	3.38	3.39
Public Utilities Group	Dec. 7	3.08	3.08	3.10	3.01
Industrials Group	Dec. 7	2.86	2.86	2.92	2.91
MOODY'S COMMODITY INDEX	Dec. 7	398.4	402.0	402.4	453.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Dec. 4	231.9	231.8	234.5	237.4
Fats and oils	Dec. 4	206.8	212.2	214.0	282.0
Farm products	Dec. 4	250.8	252.1	255.7	272.9
Cotton	Dec. 4	304.2	300.7	296.3	339.2
Grains	Dec. 4	211.7	210.6	206.5	310.9
Livestock	Dec. 4	258.1	261.1	269.1	258.9
Fuels	Dec. 4	242.3	242.3	244.1	198.2
Miscellaneous commodities	Dec. 4	172.4	173.7	170.5	178.9
Textiles	Dec. 4	195.5	194.3	193.7	224.6
Metals	Dec. 4	190.6	190.7	189.5	159.3
Building materials	Dec. 4	225.9	229.0	230.5	236.4
Chemicals and drugs	Dec. 4	150.3	151.0	156.6	157.1
Fertilizer materials	Dec. 4	142.9	142.6	142.4	134.9
Fertilizers	Dec. 4	150.1	150.1	150.1	140.6
Farm machinery	Dec. 4	153.7	153.7	151.3	129.3
All groups combined	Dec. 4	219.7	220.2	221.6	219.1
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 27	150,890	174,440	199,563	171,580
Production (tons)	Nov. 27	183,311	195,552	193,819	170,175
Percentage of activity	Nov. 27	89	97	96	93
Unfilled orders (tons) at	Nov. 27	338,720	373,804	365,928	420,456
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 3	144.6	144.6	144.2	150.7
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 30	165.1	164.9	164.2	161.0
Farm products	Nov. 30	179.4	177.6	176.5	192.6
Foods	Nov. 30	177.0	177.1	175.9	179.3
All commodities other than farm and foods	Nov. 30	153.4	153.5	153.1	142.8
Textile products	Nov. 30	147.0	147.1	146.8	146.3
Fuel & lighting materials	Nov. 30	136.8	136.8	136.6	117.9
Metals & metal products	Nov. 30	173.8	173.8	172.6	150.9
Building materials	Nov. 30	203.2	203.3	203.3	187.8
All other	Nov. 30	134.5	134.7	134.5	137.4
Special indexes—					
Grains	Nov. 30	171.8	174.2	166.0	252.7
Livestock	Nov. 30	233.1	230.1	241.3	232.5
Meats	Nov. 30	237.3	238.1	245.2	225.9
Hides and skins	Nov. 30	207.3	206.7	208.3	264.0

*Revised figure. §Includes 452,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of September	53,255	54,953	43,228
Stocks of aluminum—short tons (end of Sept.)	10,455	11,529	------
AMERICAN GAS ASSOCIATION—For month of October:			
Total gas (M therms)	2,378,446	2,145,464	2,152,536
Natural gas sales (M therms)	2,128,632	1,938,878	1,897,564
Manufactured gas sales (M therms)	165,546	145,239	165,782
Mixed gas sales (M therms)	84,268	61,347	89,190
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of November:			
Total U. S. construction	$451,112,000	$648,434,000	$474,357,000
Private construction	208,441,000	347,593,000	224,385,000
Public construction	242,671,000	300,841,000	249,972,000
State and Municipal	188,476,000	232,963,000	204,100,000
Federal	54,195,000	67,878,000	45,872,000
COKE (BUREAU OF MINES)—Month of Oct.:			
Production (net tons)	6,583,997	*6,351,187	6,460,100
Oven coke (net tons)	5,965,649	*5,762,700	5,833,100
Beehive coke (net tons)	618,348	*588,487	627,000
Oven coke stocks at end of month (net tons)	1,474,238	1,286,884	1,063,267
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of October 15:			
All items	173.6	174.5	163.8
All foods	211.5	215.2	201.6
Cereals and bakery products	170.0	170.7	160.3
Meats	256.1	255.3	235.5
Dairy products	203.0	208.7	190.1
Eggs	239.0	226.6	232.7
Fruits and vegetables	193.5	195.8	196.6
Beverages	205.9	205.6	190.8
Fats and oils	193.0	196.8	190.0
Sugar and sweets	173.1	173.2	181.8
Clothing	201.6	201.6	189.0
Rent	118.7	118.5	114.9
Fuel, electricity and refrigerators	137.8	137.3	125.2
Gas and electricity	95.4	94.6	92.2
Other fuels	191.4	191.0	165.2
Ice	137.9	137.0	129.6
Housefurnishings	198.8	198.1	187.8
Miscellaneous	153.7	152.7	141.8
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of September (000's omitted)	20,539,207	20,180,485	18,495,696
Revenue from ultimate customers—month of September	$366,155,300	$356,618,700	$325,639,000
Number of ultimate customers at Sept. 30	40,167,801	39,943,822	37,873,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR — Month of October:			
Earnings—			
All manufacturing	$54.64	*$54.18	$50.98
Durable goods	59.43	*57.95	54.66
Nondurable goods	49.61	*50.35	47.17
Hours—			
All manufacturing	40.0	*39.8	40.5
Durable goods	40.9	40.0	40.9
Nondurable goods	39.0	*39.6	40.2
Hourly earnings—			
All manufacturing	$1.366	*$1.362	$1.257
Durable goods	1.453	*1.450	1.337
Nondurable goods	1.272	*1.271	1.174
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of October:			
Shipments (in pounds)	519,000	707,000	299,000
METAL OUTPUT (BUREAU OF MINES)—Month of September:			
Mine production of recoverable metals in the U. S.:			
Copper (in short tons)	69,803	*73,523	70,738
Gold (in fine ounces)	205,944	*191,118	195,572
Lead (in short tons)	26,347	*22,853	30,647
Silver (in fine ounces)	3,091,620	*3,138,484	2,818,635
Zinc (in short tons)	51,780	*49,193	46,817
METAL PRICES (E. & M. J. QUOTATIONS)—Average for Month of November:			
Copper (per pound)—			
Electrolytic, domestic refinery	23.200c	23.200c	21.200c
Electrolytic, export refinery	23.425c	23.425c	21.460c
Lead (per pound)—			
New York	21.500c	19.500c	15.000c
St. Louis	21.300c	19.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	73.566c	77.213c	74.625c
Silver, London (pence per ounce)	45.023d	46.929d	45.019d
Sterling Exchange (Check)	$4.02750	$4.02750	$4.02632
Tin (per pound)—			
New York Straits	103.000c	103.000c	80.000c
New York, Chinese or 99%	102.400c	102.400c	78.900c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$77.913	$76.000	$79.636
¶Antimony (per pound) (E. & M. J.)	41.670c	40.830c	36.030c
Antimony (per pound), bulk, Laredo	38.500c	37.660c	33.000c
Antimony (per pound), in cases, Laredo	39.000c	38.160c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$93.000	$93.000	$62.000
†Cadmium (per pound)	$1.95652	$1.90000	$1.75000
‡Cadmium (per pound)	$2.00652	$1.95000	$1.77500
§Cadmium (per pound)	$2.05652	$2.00000	$1.80000
Aluminum, 99% plus, ingot (per pound)	17.000c	16.680c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	16.786c	15.240c	10.500c
**Nickel	40.000c	40.000c	Not avail.
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of October:			
Total number of vehicles	491,832	*413,537	436,001
Number of passenger cars	383,756	*301,170	315,969
Number of motor trucks	107,352	111,224	118,365
Number of motor coaches	724	1,143	1,667
NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of October	6,774	*6,930	9,609
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of October:			
Total operating revenues	$878,120,864	$844,773,591	$794,810,558
Total operating expenses	651,909,449	620,993,418	612,031,487
Operating ratio—per cent	74.24	73.51	77.00
Taxes	$100,778,745	$98,413,503	$89,504,780
Net railway operating income before charges	110,876,857	110,848,571	76,879,447
Net income after charges (est.)	85,000,000	82,000,000	50,000,000
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD—Month of Sept. (000's omitted):			
Savings and Loan Associations	$304,053	$319,534	$322,339
Insurance companies	80,668	84,479	76,942
Banks and Trust Companies	212,374	222,673	255,349
Mutual Savings Banks	73,424	73,550	55,097
Individuals	185,407	184,270	171,938
Miscellaneous lending institutions	135,482	139,817	140,983
Total	$991,408	$1,024,323	$1,022,648

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f. o. b. New York.

**F.O.B. Port Colborne, N. S. U. S. duty included.

Natural Gas as Industrial Fuel

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bination of circumstances contributed to this situation.

About the time that natural gas was made available in Mobile, the State of Alabama sponsored and carried out a program of harbor improvement and dock building at Mobile. This development became a factor in the decision by large aluminum interests to ship South American bauxite to Mobile where it was reduced to alumina, a form of aluminum much lighter than the original ore. Alumina could then be shipped to other localities for reduction to aluminum at a cost much less than the former longer haul of bauxite.

An important technological development in the paper industry made this part of the South an ideal location for large papermaking interests. This development was the perfection of the process of using Southern pine wood pulp as a base for certain types of paper. Natural gas again was utilized as the fuel required to generate the large quantities of steam required in this process.

The availability of natural gas in this territory also encouraged the enlargement of the cement industry where again the sintering of raw materials presented a load to be effectively handled by natural gas.

Power plants in this area had been fueled largely by coal from nearby deposits. As natural gas moved in, such plants were adapted to the use of both coal and gas, giving protection against the interruption of fuel supply by labor disputes or transportation difficulties.

The foregoing shows clearly how the replacement of a community's manufactured gas supply by natural gas not only aided the existing fuel consuming industries, but also attracted outside interests which have proven to be assets of high value.

Natural Gas For Enrichment

In some areas approached by natural gas pipe line systems, it was not deemed economical and practicable to abandon manufactured gas facilities and use natural gas entirely. Large investment existed in gas plants which could not be retired from service without loss of earnings and consequent difficulty in financing the costs of changeover to the new fuel. Therefore, instead of using natural gas in its entirety, it was utilized as a replacement for enricher fuel. In some cases, blue gas was enriched to the heating value already existent; in others, the heating value was increased by producing a mixed gas of higher thermal content than had been previously distributed.

Mixed gas is a fuel that presents several advantages over manufactured gas. It renders unnecessary the handling and storage of large quantities of oil. Tars and light oils disappear and their attendant removal from the gas becomes unnecessary. Plant labor is somewhat reduced. However, certain manufacturing costs remain which keep the costs of mixed gas up to a point that make it prohibitive for use in large quantities such as would be required by the type of customers described as existing in the Mobile area.

Furthermore, even if the cost of mixed gas were comparable to other fuels, it would have been impossible for most gas companies to have produced mixed gas in quantities necessary for their prospective industrial customers without large plant additions for the purpose of making additional quantities of basic blue gas.

In many of these situations, local gas companies successfully worked out plans whereby local industry could participate in the use of natural gas. By reason of the location of more important industries in the service area, it was sometimes possible to isolate a part of the distribution system or build a new segment of the system for the use of natural gas only. In this manner, it was possible for the company to deliver mixed gas to its residential, commercial and light industrial customers and at the same time deliver natural gas to the other industries in quantites not limited by the manufactured gas facilities.

Methods of Distribution

Thus far in this paper the discussion has been devoted generally to the use of natural gas by industry furnished by gas distribution companies who purchase their supply from the pipe line companies. In large centers of population, industrial plants are usually located within areas covered by franchises held by local operating companies, thereby giving them sole rights to this business but ordinarily subject to state control as to rates and service. Many natural gas pipe line companies prefer to have all such gas sold by distributing companies. This method relieves the pipe line company of rendering local and individual service to customers whose service requirements vary with every type of use. It also removes the possibility of undesirable competition between the pipe line company and local distributors of natural gas.

However, all the industrial gas sold in this country is not sold through such agencies. There are instances where an industry itself has procured natural gas production in the area in which it is located. They have found it profitable to produce the gas and transport it to their plant. This has sometimes led to the formation of a company whose only function is the furnishing of natural gas to a group of industrial users. Companies of this kind are to be found throughout the gas producing areas of the country. In some cases, industry has arisen in natural gas producing areas merely because of the existence of gas. For instance, carbon black plants can be found in areas far removed from centers of population and industry. Natural gas for this purpose is usually not commercially acceptable in transmission pipe line markets because of high sulphur content, low heating value or not being economically transportable by reason of distance.

Plans for Extending Natural Gas Availability

Thus far, only situations already served by natural gas have been discussed. Today plans have been formulated by certain natural gas pipe line companies to push their product to the northeastern part of our country. One company has received a certificate to transport natural gas from Texas to the populous area which includes New York City, Northern New Jersey and Philadelphia. Another company is already delivering some natural gas into Philadelphia. One of the largest pipe line companies has declared its intention to build an extension of its system to New England.

These areas are now served with manufactured gas by some of the largest and best operated representatives of the gas industry. The results of pioneer research and operation in the manufacture of gas, coke and other by-products are to be found in this region. Here are some of the last remaining provinces of manufactured gas in the United States. This industry is beset by many problems. Gas making materials—oil, coal and coke—are higher in price than ever before. Consequently, the investment in fuel stock piles is at a new high. Never has the cost of labor been so high. Labor disputes from time to time threaten to interrupt the supplies of necessary production fuel. Every company has a backlog of potential customers whose demands will strain present plant and distribution facilities. In some cases, it is possible to take advantage of fuel clauses or to secure rate increases to offset part of the increased cost of manufacture. However, this transfer of part of the increased cost to the customer is not popular and leads to the investigation of competitive types of service. This is particularly true in the case of the industrial customer now served by these companies. There are many such customers, some of whom use large quantities for specialized processes.

It is quite likely that when natural gas is extended to the northeast area, the gas companies particularly the larger ones, will use natural gas as the enriching agent in some form of mixed gas. Depending upon the adequacy of their distribution systems, they will either maintain existing heating value standards or increase them somewhat. At the present price of enriching oil, the cost of mixed gas should be decreased by the substitution of natural gas when purchased at prices offered by the pipe line companies.

If this decreased cost is reflected in the rates to the consumer, there will be an increased demand for house heating gas. An increase in this type of seasonable load will tend to reduce the company's annual load factor. Rates proposed to be charged by pipe line companies in the northeastern area are designed in a manner that will encourage the distributor to maintain a high annual load factor by reducing the average cost per mcf. This will prompt a search for types of load that will tend to cancel the seasonal effect caused by the heating load. Naturally, attention will be given to existing industrial load. Most industry is located within areas covered by franchise of a distributing company. If the company confines itself to the distribution of only mixed gas, there will be a limit to the extent to which industrial load can be increased. All gas delivered will have to go through the plant as enrichment fuel and for this reason the resulting mixed gas will require a higher rate per therm than if it were not processed. There will be a limit to plant output of mixed gas unless plant facilities are enlarged.

These facts will lead the distributor to investigate the possibility of interesting potential sizable industries in the use of straight natural gas seasonably on an interruptible basis. Service of this type will necessitate sectionalizing or building a portion of the distribution system for conducting straight natural gas to such customers. Design of the existing system, location of the pipe line measuring stations and zoning of the city will, among other things, be factors in this accomplishment. As already stated, combination of mixed gas and straight natural gas distribution facilities has been worked out successfully by mixed gas distributors to the point where large industrial customers can use straight natural gas for their processes. There will, no doubt, be some gas companies in the Northeast that will choose to change to a complete use of natural gas and convert their water gas plants to the manufacture of stand-by gas of calorific value comparable to natural gas. Their approach to the assumption of industrial load can be somewhat clearer than the approach of the company which chooses primarily to distribute mixed gas. Particularly, the isolation of any part of the distribution system will not be found necessary.

Price Stability

There is an element of price stability that is reflected in the costs of natural gas to the ultimate industrial consumer. Natural gas that is secured in the field by pipe line companies is usually contracted for on the basis of fixed prices agreed upon for as long as 20 years. The earnings of these companies are regulated by the Federal Power Commission which, accordingly, fixes the rates charged to the distributor. These rates, in turn, determine the distributor's cost of gas, a large item in operating expenses, which is quite stable because of the effect of controlled earnings. This same element persists when the gas is sold to the industrial customer as the distributor is also subject to control of earnings and rates by some local authority. It can be seen that these costs are not subject to demand and supply, seasons of the year and other factors that affect sharply the prices of other types of fuel.

The Drags on Inflation

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cies in who got what out of that rise in payrolls.

At one end of the scale you can take the coal mining group and say that their increase from some $24 a week, the average in 1939, to the $74 they are getting now, represents, even after you allow for price changes, a very substantial rise in real income. But if you were to take a group like the retail workers, in general you would find that they got increases in money income that may give them currently 10% betterment over 1939, but it does not add up to a net increase in real income since the ending of price controls. If you take, for another example, the general run of workers in the insurance business, or if you take public school teachers generally, you will find their money incomes rose so little that in relation to the present price level, their purchasing power is considerably behind what it was before and they have to pinch their buying more drastically than they had to before the war.

So, we do have to recognize the fact that this spiral is not working with even-handedness and that we are going to get some blocks in purchasing power leading into discouragement of new capital expansion in certain areas that have been expanding up to now.

Drag on Consumer Incomes

Consumers whose income did not keep pace with the postwar trend in factory payrolls and prices have been able to maintain a good part of their purchasing power until very recently by calling upon savings that accumulated to the end of the war. As these have dwindled, we have witnessed a relative enlargement of instalment accounts. In the third quarter of 1948, consumer credit outstanding reached a high of $14.7 billion. Some of it was voluntary, representing a confidence in the future. Nevertheless, it contains some disturbing implications. As of January, 1946, only five million families — or more correctly, spending units—had instalment credit outstanding, for a total of about $3.5 billion. But since then the number has come up to nine million families, or spending units, with an increase to $7.7 billion in instalment accounts. Obviously, if we have any significant drop in employment the instalment dealers will have a surplus of repossessed items on their hands. The softening effect on production could come quickly in that sector.

Meanwhile, wholesale prices have risen about 60% since the beginning of 1946; that includes an increase in foods of a little better than 75%, and in industrial products perhaps 53%, since the beginning of 1946.

The setting is one in which we may expect a progressively larger number of consumer items to get priced out of their market if they continue at present levels. It may be some time before we see a significant softening in areas that have had very heavy backlogs, as in automobiles, or in certain types of farm equipment (although the word is getting back from dealers who report some softening even there). In any event, we have witnessed some accumulation of slow-moving inventories and lessening of business activity in small appliances, shoes, textiles, jewelry, toilet articles, paper products, and publications, as well as in service and recreation lines. Where the softening has already become visible, some price corrections are bound to develop.

Banking and Business Prospects

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money rates naturally make to the over-extension of credit."

Regulation W

Many of you business men are well acquainted with operations under Regulation W and its real effect upon your businesses. I do not agree with the proponents of Federal control who claim that installment lending was getting out of hand and that such lending contributed substantially to the inflationary spiral. The Federal Reserve Bulletin issued in September 1948 shows that there has been an increase in total consumer credit outstanding from approximately nine billion, nine hundred million dollars on Dec. 31, 1941 to 13 billion, four hundred million dollars as of Dec. 31, 1947. During the same period, deposits of all banks in the United States increased from 81 billion, 800 million dollars to 161 billion, 800 million dollars. Thus, although deposits of all banks in the United States increased 97.8% from 1941 to 1947, total consumer credit outstanding increased only 35.8% during the same period. I do not think the record shows any over-expansion of consumer credit and other types of installment lending in the United States when comparison is made with the increased money supply and the tremendous increase in the price of articles purchased by means of such credit.

To my mind, installment buying is one of the most stable forms of money lending in our country. Records will show that the percentage of loss on such credit is mazingly low. Through this credit device, the standard of living of the great mass of American people has been raised and I believe it is true that practically every individual who works for a living depends upon the time method to buy his automobile, refrigerator, radio and so on. Under high prices today, the farmer buys much of his equipment and farm machinery "on time" and he has the benefit of greater production and greater efficiency through using the materials he buys while paying for them. It seems apparent that the average man, even at the present high level of wages, may not be able to save enough money to accumulate the required down

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Banking and Business Prospects

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payment to buy a new automobile and to pay it off in 15 to 18 months. These facts make it questionable whether credit control through such a Regulation as "W" will be beneficial or harmful in the long run.

What is the outlook for banking and business? I am pleased to say that generally speaking, State banking institutions in Pennsylvania are today in probably the strongest and most liquid condition they have ever attained. I think it is true also that the majority of businesses are presently in sound condition. Banking and business then are in a strong position to withstand the fluctuating economic situation which the Administration's platform presages for the near future. I noticed in the press a day or so ago that the new Administration will stand on the principles laid down by the President in a 21 point message he delivered to Congress on Sept. 6, 1945. This program includes price controls, control and allocation of raw materials, higher taxes with possible reenactment of an excess profits tax, broadening of social security, Federal aids to health and probably education, additional government aid to housing and more government lending. When one estimates the cost of such additional government spending and adds it to the known figures for carrying a national debt of approximately $250 billion, the European Recovery Program, the defence program and benefits for our veterans, one must wonder quite naturally from what source these huge expenditures will be financed. Most assuredly, the foregoing does not sound like a program to combat inflation—to me it is just the opposite.

Fate of Dual Banking

I am fearful that one of the results of such a program may be the end of the dual banking system and centralized government control over all banking in the United States. We have witnessed in recent years repeated attempts from some officials in the Federal Government to impose control and regulation by the Federal Government upon State-chartered, State-supervised and State-regulated banking institutions. Such centralized control would eliminate the very necessary checks and balances in the banking field provided by the dual banking system. Those of us who believe in States' rights and healthy competition to preserve the American way of life must continue to fight against invasion of such rights by the Federal Government and we must do everything in our power to prevent centralized control of all banking in our country.

In conclusion, I believe the real cure for inflation lies in the elimination of government extravagance and wasteful spending. I think it is time to end or greatly modify price support programs, subsidies, government lending and government guarantees. Strikes and feather-bedding have no place in a sound economy and it is time to end such wasteful practices. It is apparent that such policies seem drab to the average American today but I believe firmly that they represent the only real cures for our inflationary troubles.

Inflation and Its Implications

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tice under law, was carefully safeguarded by a Constitution and a Bill of Rights defining the limitations under which government should operate.

Taxation Principles

In this scheme of things our forefathers paid very particular attention to the subject of taxation, the conditions under which taxes could be imposed, and the controls to be exercised over the expenditure of the public monies collected. They did this in clear recognition of the fact that the possibilities of tyranny in government ultimately rest on government's power to tax, and on government's power to police. They put stringent limitations upon both.

Taxation can be current, simple and direct, as in the case of flat income and excise taxes. It can be discriminatory in its impact on various classes of people, as instanced by the graduated income tax, by selective excise taxes, and by tariffs.

To a limited extent, the impact of taxes can appear to be deferred through the use of governmental credit, by meeting current expenses with money raised through the sale of liens on future government income.

And then, most ominous of all, because it largely escapes the ordinary constitutional and statutory restrictions, taxation can be obscured and, for a time, concealed by diluting and degrading the currency. That is inflation.

The mechanisms by which inflations are brought about are many and varied. Some are simple and obvious. Historically, the paring of the edges of a coin and the alloying of precious metals with cheaper ones were probably the first, simplest and most apparent.

The introduction of "promises to pay" in the form of paper currencies opened up vast new opportunities for currency manipulation. In a sound monetary system, these "promises to pay" are redeemable in things having intrinsic or objective value, such as gold or silver. The abandonment of this simple objective index of monetary integrity has always been a precursor of troubled times.

It is important in monetary theory and practice that the value of these precious metals is related to the labor required to produce them; that they have been in worldwide demand from time immemorial and that they are relatively indestructible; and that in them a considerable aggregation of value can be accomplished with relatively limited weight and space. Experience has proved them, and particularly gold, to have great practical convenience as a relatively stable basis for the measure of value.

Furthermore, a large measure of this stability attaches to paper currencies redeemable in them. This empirical fact. No amount of theorizing on the possibility of an irredeemable sound money can controvert it. No government in all history has ever demonstrated over any significant period of time that it possessed the combined courage, integrity and skill required to operate and manage irredeemable currency. No first-class nation in modern times has ever retained an irredeemable paper currency over the life span of one generation.

Paper Currency

One of the first indications of an incipient inflationary trend may be the modification, qualification or withdrawal of the commitment to redeem paper currency on demand with "hard" money. Unfortunately the tendency frequently succumbed to in monetary crises under hard money systems is to break the pledge of redeemability rather than to inquire into and correct the cause of the dwindling confidence in the monetary system. This country has fallen into such evil ways several times in its past history. It is now in the anomalous position of standing ready to redeem its paper currency in gold on demand of foreigners, but denying this right to its own citizens!

It might well be said here and now that adoption of and adherence to a gold standard does not of itself assure perfection in the handling of a nation's monetary and fiscal affairs. We are all familiar with monetary crises that occurred while this country was on a gold basis. There are many problems to be met and solved in the skillful handling of a banking system issuing paper currency and in transacting banking business in a currency redeemable in gold, but the possibility of an inflation of nationally destructive proportions is not one of them! Gold imposes limits, and as a practical matter, whatever its defects, it offers a nation better protection against inflationary excesses on the part of either a government or central banking authorities than anything else yet devised and tested by experience.

Irredeemable paper currencies are merely matters of penmanship or the printing press, and unless inflationary practices are abandoned, become mere expressions of good intentions at the time of issue. They are readily susceptible to inflationary manipulation. In fact, generally speaking, resort is had to irredeemable paper currencies with that precise purpose in view.

The private practice of adding to the money supply by counterfeiting has long been recognized as a statutory crime against the public interest and dealt with as such. Yet large scale "deficit financing" by governments today enjoys an honorable estate and is widely practiced throughout the world!

The mechanism of inflation through the issuance of irredeemable paper currency can vary from the bald, barefaced printing of paper money by the government to more elaborate procedures involving the sale to central banks of government bonds against which bank notes are issued. These transactions are legal, they are conducted on a magnificent scale, but in essence the results are the same—additional purchasing power has been created and disseminated among the people with the consequent impairment of the value of all money, bank balances, and instruments of credit outstanding.

Modern banking practice, with the substitution of book balances on bank ledgers for vaults and money bags, and of checks for coins and paper money, has elaborated and complicated the whole monetary situation to such an extent that even the experts disagree on the mechanics of its operation. The claim is frequently made and seldom disputed that no one thoroughly understands all the intricacies of the operation of a modern monetary system such as that under which our affairs are conducted.

However, whatever the intricacies of the situation or the complexity of its operation may be, the fact remains that governments, in their exercise of their proper function of defining the unit of value in the terms of which nations conduct their affairs, are continually tempted and all too frequently succumb to the temptation to ease the apparent burden of taxation by which they raise the required revenue by degrading and debasing the unit by which values are standardized and measured. There are any number of nations engaged in just such practices today.

The astonishing thing is that this manipulation by governments of the standard of value—money—is accepted with complacency by people who would shrink with horror from a proposal to redefine a yard as 27 inches, a pound as 10 ounces, or a gallon as 5 pints. And yet no one of the foregoing proposals is any more absurd, or any greater infraction of fundamental integrity, than is an arbitrary shrinkage of the worth of money in terms of which a society conducts its business.

The pressure to resort to inflationary measures is frequently, though not invariably, due to conditions brought on by wars, or their aftermath. As a war measure, perhaps inflationary financing is unavoidable. However, it is extremely difficult to stop the habit with the termination of the war. It is, perhaps, the most difficult of the "reconversion" problems presented in a postwar period, and after a serious and enervating war not many nations have coped with it successfully.

Nation Is Now Under Test of Inflationary Pressure

Again this country is now under that test, and it would be most unwise to feel confident that the issue is as yet secure.

Governments should provide for the administration of justice between citizens through the passage and enforcement of wise laws designed to prevent and punish fraud. To establish, maintain and police a standard of value, in other words, define the monetary unit, is a proper discharge of this obvious responsibility. To attempt to meet this responsibility by the socialization of banking functions under government administration and control raises questions and introduces problems of quite a different category.

Among the techniques of government with which men have experimented in their struggle to acquire and protect their freedom, two devices have evolved through which men have at times, and to some degree, restrained and controlled those to whom the power to govern has been delegated. One is the ballot box, through which the personnel of those in power can, on occasion, be changed. The other is the establishment and maintenance of a sound monetary system through which the activities of governments can be restrained and contained within those limits prescribed by the amount of taxes that can be collected and by the credit standing that can be maintained in a free, unregulated, and unrestricted money market.

Of these two restraints, the one is as important as the other. The qualification or disappearance of either in a country purporting to recognize the freedom and significance of the individual man, is a real shift in the underlying structure of government.

Today the monetary systems of almost every country in the world are subject to arbitrary governmental restrictions and restraint. Financial and political tensions are so closely interwoven as to be practically indistinguishable. Economics and politics become synonymous in Communism, and even in those countries with traditions of freedom the line of demarcation between economics and politics wavers and tends to become blurred. Marx and Lenin were quite correct when they singled out the banking and currency system as one of the most vulnerable points of attack on capitalism. There can be no question today but that as between Communism and our way of life the issue is joined. And therefore let us not forget that inflation is one of the more potent weapons in the arsenal of our adversary. It must be forefended against at the cost of such immediate discomfiture as may be entailed.

Industry's Responsibility

Industry could not escape a share of the rsponsibility in this situation if it chose to, because industry is too important a segment of American life. It is the success which has attended industrial growth and development in this country that most conspicuously marks us out among the nations of the world. From industry this country draws the strength and productivity to sustain the highest standard of living in the world, the power to defend itself against aggression, and the surplus from which it draws to succor others in distress. Many factors, importantly among them scientific research and the incomparable ingenuity of the American workman, contribute to this enviable record of national industrial accomplishment, but the responsibility for industrial leadership attaches wholly to management.

Nor is this responsibility limited to the mere disposal of those questions related to our own industrial businesses, important and difficult as those questions are. Before we are managers of businesses, we are Americans, and our fellow citizens of all walks of life are entitled to our views on matters important to our country's welfare, and most particularly on matters which directly relate to industry and industrial operations.

Certainly inflation is one of these, and the erroneous opinion is widely held that inordinately high and unjustifiable industrial profits contribute substantially to the current inflationary trend. The proposal is advanced, and make no mistake about it, it has broad public support, that price controls should be restored. Industry is credited with having been importantly instrumental in accomplishing the abandonment of price control, and the results have been portrayed as disappointing, to put it mildly. The public tend to forget that under price control they had lower prices but little meat, whereas now meat can be had, although to be sure at higher prices.

That high prices are the result and not the cause of inflation is not generally understood and accepted by the public who, in their vexation with the whole situation, are all too ready to believe that industry's alleged greed for profit is at the bottom of it all. Price control appeals to many people as an obvious answer to their immediate discomfiture. Some are unaware of or indifferent to the enormous damage it would inflict upon the economy of the country. Others welcome it with sardonic satisfaction as another step along the path toward state socialism, as indeed it would be.

Such is the situation, and whether industrial management likes it or not, either by positive action or by default, it will make its contribution to the history of the period ahead of us, and in due course be judged accordingly in the court of public opinion.

Now what does it add up to, and what should be industry's position? It is to be expected that in so large and diverse a group as industrial management as represented in the NAM, differences of opinion will be found, particularly with respect to details. However, it would seem that on broad matters of principle, stated as objectives, without being too specific as to the mechanics and the timing of their attainment where the responsibility for action rests elsewhere, industry should be able to state a position, to indicate that approach which in its opinion would best serve the public interest. The main features of such a program to the ultimate attainment of which industry subscribed would seem to be reasonably clear and perhaps more readily attainable if industry is prepared to state them.

Restore Sound Money System

Of primary consequence and importance is the re-establishment of a sound monetary system and the discarding of irredeemable paper currency, along with a revision of the Federal fiscal and banking policies responsible

for its emission. Specifically this means, whatever the intermediate steps political and banking sponsorship might advocate as advisable for its ultimate accomplishment, an eventual redeemability of the money in the substance of its reserves—the restoration of gold coinage to free public circulation.

The inflationary cycle in which the country is now enmeshed is the reflection of the enormous increase in the amount of the money supply. This inflation can be stopped by stopping the further issuance of irredeemabe paper money and further credit expansion, and it can not be stopped in any other way. Only with the monetary basis for further inflation eliminated can the general price level be expected eventually to stabilize. It will stabilize around a point determined by the present gold content of the dollar. That gold content should not be further tampered with under any circumstances.

The restoration of a sound, "hard" monetary system is a political responsibility. It can be initiated and carried out only by government. Industry can only state its views, and respectfully recommend their consideration.

It should be noted that no political party is committed at this time to any practical measures designed or directed to the restoration of "hard" money in this country. Furthermore, this proposal is lacking articulate banking sponsorship of any notable importance.

Next, and a necessary corollary to the foregoing proposal, the Federal debt, with the exception possibly of a certain amount of short-term securities, should be funded into long-term bonds of well spaced maturities, or maybe into a perpetual funded debt similar to the British consols, bearing interest rates sufficiently high eventually to attract substantial absorption of the debt by private individuals and institutional investors. In this manner the amount of government securities held in our commercial banking system would be progressively reduced. This bank-held debt is capable of serving as a basis for the further issuance and creation of money and bank deposits, and thus further augmenting inflationary pressures.

The correction of the undesirable economic effects of our present tax system is a prerequisite to the resumption of the development of this country's industrial economy. This is too large a subject for even brief review here, but taxes have a direct impact on the inflationary problem. It is not enough to abandon deficit financing. Something much more positive is required.

Revision of Tax Structure

The tax structure must be revised to offer more encouragement to saving and capital formation, and the ruinous punitive tax burdens assessed against those to whom we look for venture capital investment must be ameliorated so that productive capacity can be increased.

The earning of a profit must be recognized for what it is: a proper compensation for risks taken and services rendered. Industry should abandon its apologetic attitude in the discussion of profits. Honestly earned in a free and genuinely competitive market, profit performs the essential service of stimulating ever greater production of those items in greatest demand, and incidentally provides a large share of the capital required for financing the additionl facilities required for increased production.

The percentage of profits retained in business to finance future operations, to provide jobs and to produce ever greater quantities of those goods people need and want, has risen from around 35% before the war to around 60% to 65% currently.

And finally, of great and immediate importance is the necessity for the reduction of governmental expenditures to the lowest level consistent with adequate military defense and the carrying forward of the more urgent of the government's domestic activities and projects. This counsel of thrift at this time need not and does not involve any appraisal of the governmental activities and projects. Regarded purely as an effective anti-inflationary measure, it is essential that the Federal budget be kept safely in balance and the cost of government reduced by attaining the maximum efficiency in administration and by the elimination of any excessive personnel and needless activities. It would be wise at this time to postpone all government expenditures for projects not immediately necessary.

Military expenditures at this time and under present circumstances pose a peculiarly difficult problem. Defense requirements from a technical military standpoint, presumably, can never be adequately met. Certainly no one wants any "too little and too late" if it becomes necessary to use them. But on the other hand, there could come a point where the burden of a defense program might well wreck the civilian economy upon which it depends for its support. The balance is a delicate one, and calls for the utmost mutual understanding and cooperation. It is a grim prospect. The problems inflation presents internally are no less real than are those of providing adequate defense against foreign aggression. But this is another subject, and can only be suggested here.

Such are the barest bones of a discussion of inflation, some of its more important implications, and certain steps past experience has shown to be effective in dealing with it. It has taken us somewhat afield from a mere discussion of industry's more special interests in the subject, important as they are. It discloses inflation to be a political problem of the first magnitude, but a political problem as yet without partisan bias. The public reacts intensely to one of the effects of inflation—high prices—but shows little acquaintance with its causes or with the history of past inflations. Even less are people aware of the tragic consequences of previous attempts to deal with the problem of inflation through arbitrary dictatorial governmental regulation.

Most of us industrialists know all this. Why not have the courage and the candor again and again to say so? If we haven't, and if we don't, how can we blame our fellow citizens in other walks of life if they believe people who tell them otherwise and consequently come to incorrect conclusions?

The Federal Budget Outlook

(Continued from page 15)

a minimum level of certain governmental services, and (2) to see that the cost of this minimum level is spread throughout the country. To serve these ends, the grant needs to be so distributed that the share for each state will reflect its need for the particular service and also its capacity to finance the minimum level of service from its own taxable resources.

At the same time that the Federal grant provides national assistance in financing a service, it leaves to state or local government actual administration of the program. Thus the state has—or should have — a substantial measure of discretion in adapting the program to local needs and customs. The states do, of course, operate within a framework of broad national policies for the grant program. But they decide how far to go with a particular program and determine the day-to-day content and quality of the operations.

The grant-in-aid method has two basic merits when compared with clear-cut separation of the tax sources and functions of the Federal and the state-local governments.

In the first place, the grant helps reduce interstate inequalities in the level of government services or of tax rates. On the other hand, separation of tax sources tends to aggravate these inequalities. It compels less wealthy states to impose higher tax rates or to give fewer and poorer public services than their neighbors. Either of these adjustments handicaps their economic development.

In the second place, the grant-in-aid method offers an inducement for a state to provide a given service and to meet specified standards in order to continue to receive the grant. The grant need not be coercive or compulsory, though the inducement may be very strong—particularly if the grant covers all or most of the expense. But the basis and the justification for a Federal grant is the national interest in the services being financed. In this respect, a complete separation of Federal and state taxes and functions is not an alternative to a grant-in-aid. Carried to the extreme, the philosophy of separating Federal and state responsibilities might constitute, in fact, a denial of national interest in the services to be rendered by the states. Instead of providing incentive for all states to carry on certain services of national interest, the separation of tax sources may encourage a state to omit the service and thereby to become something of a tax haven. The national interest might thus be defeated by local indifference in a few areas followed by interstate competition and imitation.

The grant-in-aid is also generally preferable, in Federal-state relations, to the sharing of Federally-collected taxes. (Somewhat different considerations may apply in state-local relations.) Under a grant arrangement, the amount which a state receives is determined by a formula which measures—or, at least, ought to measure—the relative needs of that state. Under tax-sharing, however, each state would receive part of the proceeds of a designated tax collected by the Federal Government — a part not necessarily related to the needs or the fiscal capacity of the particular state. If the share is adjusted to take account of such factors, or if the Federal Government attaches conditions restricting its use, the arrangement becomes more and more like a grant-in-aid. Such considerations help to explain why shared-taxes are little used by the Federal Government.

The major advantages, then, of the grant-in-aid as a device of Federal-state fiscal relations are:

(1) It offers an inducement for such state to provide at least a minimum level of these services which are the subject of national interest.

(2) It provides financial support for these services on a nationwide basis, but leaves their administration to the states or their subdivisions.

(3) It reduces interstate inequalities in tax rates and in levels of governmental service.

(4) It aims at adjusting the amount of assistance for each state to the financial and service needs of that state.

Naturally, the full measure of all these advantages is not always obtained in practice.

For example, grant-in-aid programs have sometimes been too narrowly defined; their content and direction has been too precisely and specifically set forth in Federal law or regulation. When Federally-aided programs are defined too narrowly, the state has no direct incentive to economy and efficiency in the use of Federal money, since any savings it makes on the aided program are not available for other use by the state.

Sometimes Federal grants are provided or increased when it would be better to take more fundamental measures. An example is the increasing emphasis which has been placed upon public assistance grants, while at the same time the Federal system of old-age and survivors' insurance has been weakened. This contributory old-age insurance system, with its premiums collected by withholding from payrolls, was designed originally to supplant much of the need for public assistance. It still can be made to do so by broadening coverage, bringing the benefit rates up-to-date, and making other improvements. This is basic if we hope to reverse the steady rise in expenditures for public assistance.

Improvements Needed

Without going into detail, I should like to mention several needed improvements in the Federal use of grants-in-aid.

(1) A careful evaluation of all the Federal grant-in-aid programs is needed — one against another and each against all the rest of the programs and commitments of the Federal Government. As matters stand now, it is not at all clear that the amounts devoted by the Federal Government to its several grant-in-aid programs are even roughly proportionate to the national interest in each of these programs. Although the normal processes of budgetary review can promote a better balance, a thorough going realignment would require legislative action.

(2) The scope or subject-matter of each Federal grant program and the conditions attached to the grant, need to be reconsidered The whole grant-in-aid system might be more effective and economical if certain basic changes were made—for example: (a) if existing piecemeal programs were consolidated into broader functional programs; (b) if more of the grants were related to the fiscal resources of the states, as well as to the states' needs for services and (c) if minimum service standards could be expressed in terms of results achieved rather than in terms of dollars spent.

(3) All the states should provide by law, as several already do, for the same budgetary review and control of Federally-aided programs that they give their other programs. Because grants-in-aid are a cooperative device, there is a tendency for each participating government to scrutinize budget requests for grant programs less intensively than it does the programs which it finances fully and operates directly. This is a tendency which is on its way to correction. I have had the pleasure of taking part in some profitable discussions of this problem at two of the annual meetings of the National Association of State Budget Officers, and I am happy to add that a joint state-Federal committee to foster an exchange of information useful to budget officers is being organized.

(4) The administrative arrangements for Federal grants-in-aid should be reviewed with the objective of attaining more uniformity and simplicity, more adequate safeguards for the Federal Government, and more definite state-local responsibility for operations and for adaptations of each program to special situations. At present, some Federal laws permit or even require an unnecessary amount of Federal interference in state operations, while others are so restrictive that Federal officials have no discretion. In effect, they can only "leave the money on a stump and run." Neither extreme can be justified. The Federal administrator needs enough authority to make sure that the national interests are protected, but not so much authority that coercion is substituted for cooperation.

So much for needed improvements. They can and should be made, and they should rest upon a foundation of careful study, including a full exchange of views and ideas between Federal and state officials. The grant-in-aid is too useful a partnership device in our Federal-state system to be hampered by misuse or ill-considered use. Properly used, the Federal grant-in-aid is a device of moderation. It gives the state governments a broader operating base and emphasizes their national importance. If arbitrary limits are set upon the use of Federal grants, the states may be seriously weakened.

This danger is particularly great at a time like the present, when not only the Federal Government but also many of the states and their subdivisions face deficits. State and local governments have not caught up with the wartime accumulation of needs for the repair and expansion of roads, schools, and hospitals and many other types of facilities. High price levels have greatly increased the cost of such activities, as well as the level of current expenses, including the salary rates of public employees. Nearly all units of state and local government are confronted with accelerating pressures for public services which threaten to outrun revenues. It is true that high prices and high employment have increased their tax yields but the rate of this increase appears to be slackening off, whereas the demands for governmental services are still increasing. The times call for careful budgeting at all levels—for the evaluation of every proposed expenditure program in the light of a full, factual background and a comprehensive budget policy. This budget policy, in the state and local governments, as in the Federal Government, needs to be one which will contribute to maintaining economic stability at a high level in the face of increasing demands for national defense and international aid.

In the field of Federal-state relations, a full recognition of our responsibilities as a going partnership is essential. We must select devices of fiscal coordination wisely. We must be sure they are consistent with the spirit and the purpose of our Federal-state system of government and with the highest national interest.

The separation of tax sources, the sharing of taxes, the use of tax credits or other coordinating adjustments on particular taxes, and Federal grants-in-aid, all serve different objectives and achieve different results. No one of these devices is an end in itself. We should not set arbitrary limits on the use of any particular device; neither should we use one of these tools where some other would work better.

Through conferences like this, and through other avenues of consultation between the Federal and the state governments, we can begin to get agreement on the purposes and objectives which should govern our efforts at fiscal coordination. Such mutual understanding is essential as a basis for the real working partnership which is required by our joint responsibility to the American people.

William P. Kapp Dead

William P. Kapp of Gude, Winmill & Co., New York City, died Dec. 2 at the age of 72. He had been in the brokerage business for 50 years.

Herrick, Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Earl O. Hudson has become affiliated with Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● Affiliated Gas Equipment, Inc., Cleveland, O.
Dec. 6 filed 40,000 shares of $3 cumulative preferred stock (par $50) and 1,000,000 shares common stock (par $1). **Underwriter**—Reynolds & Co., New York. **Purpose**—To purchase all of the assets of three subsidiaries of Dresser Industries, Inc., viz: Bryant Heater Co., Cleveland; Day & Night Manufacturing Co., Monrovia, Calif. and Payne Furnace Co., Beverly Hills, Calif. [Affiliated will obtain an additional $4,000,000 the private sale of 15-year 3¾% notes to insurance companies.]

All States Life Insurance Co., Montgomery, Alabama
Nov. 24 filed 30,000 shares of capital stock. No underwriting. **Offering**—To be offered to stockholders at $10 per share. **Proceeds**—To complete company's purchase of Eureka-Maryland Assurance Corp. of Baltimore, and to keep surplus intact.

American Bemberg Corp. (12/13)
Oct. 19 filed (by Attorney General of the United States) 6,175 shares of class B 4½% cumulative preferred (par $100), 91,851 shares of class C common (no par) and 34,033 shares of class D common (no par). **Underwriters**—Stock will be sold at competitive bidding. Probable bidders: Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane. Pullman, Inc., may also bid. **Bids**—Bids for the purchase of the stock will be received at the Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST) Dec. 13.

American Investment Co. of Illinois
Nov. 18 filed 168,425.5 shares of $1.25 convertible preference stock, series A (par $25) and 68,175.6 shares of 4½% preference stock (par $25). **Offering**—The $1.25 preference stock is to be issued in exchange for Ohio Finance Co. 5% preference stock (par $100) on a four-for-one basis and Ohio common in ratio of ⅘ preference for each common share. The 4½% preference stock would be exchanged for Ohio Finance 4½% preferred (par $100) on a four-for-one basis. **Underwriter**—McDonald & Co. will act as dealer-manager.

American Metal Finishing Co., Grand Rapids, Michigan
Nov. 3 (letter of notification) 40,000 shares of common stock (par, $1). Price, par. **Underwriter** — DeYoung-Tornga Co., Grand Rapids, Mich. To enlarge manufacturing facilities and for additional working capital.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Indefinite.

Arcata (Calif.) Timber Products Co.
Nov. 15 filed 100,000 shares 6% cumulative preferred stock (par $10) and 300 shares of common stock (par $5,000). **Offering**—To be offered in exchange for outstanding common (par $10), or as an outright sale. **Underwriter** — None. **Proceeds** — To retire outstanding common and pay notes; balance to erect plywood mill.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

● Arlington Corp., Pittsburgh, Pa.
Dec. 6 filed voting trust certificates for 14,216 shares of common stock (no par).

● Capital Broadcasting Co., Annapolis, Md.
Nov. 23 (letter of notification) 7,500 shares ($10 par) common. Price, par. No underwriting. For the construction, maintenance and operation of a standard broadcast radio station.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

● Central Illinois Electric & Gas Co.
Dec. 3 filed 80,000 shares of common stock (par $15). **Offering**—To be offered common stockholders for subscription at par in ratio of one-sixth of a share for each share of common held. No underwriting. **Proceeds**—For construction costs.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Underwriter**—Coffin & Burr, Inc. **Offering**—To be offered initially to existing stockholders both preferred and common. **Proceeds** — To reduce outstanding short-term bank notes payable to The First National Bank of Boston.

Central Power & Light Co.
Nov. 21, 1947, filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co.; Dewar, Robertson & Pancoast negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

● Cherokee Basin Oil & Gas Co., Butler, Mo.
Nov. 30 (letter of notification) 25,000 shares (no par) capital stock. **Price**—$10 per share. No underwriting. To develop oil production.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Cobalt Mines Corp., Newark, N. J.
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

● Columbine Development Co., Grand Junction, Colo.
Nov. 30 (letter of notification) 2,800 shares of common stock (par $10). Price, par. No underwriting. For exploratory and development work.

● Cotter & Co., Chicago, Ill.
Dec. 2 (letter of notification) 1,000 shares of common stock (par $100) and 500 shares of preferred (par $100). Price, par, for both classes. No underwriting. For working capital.

● Curtis Publishing Co., Philadelphia
Dec. 1 (letter of notification) 2,000 shares of common stock. **Price**—$8. **Underwriter**—Stock will be offered through Hecker & Co., Philadelphia. Proceeds to selling stockholder.

● Curtis Publishing Co., Philadelphia
Dec. 1 (letter of notification) 2,500 shares of capital stock. **Price**—$8 per share. Underwriter—Stock will be offered by Granbery, Marache & Lord, New York. Proceeds to selling stockholder.

● Denver (Colo.) Icedrome, Inc.
Dec. 3 (letter of notification) 250,000 shares of common stock. **Price**—$1 per share. No underwriting. For financing, promoting, organizing and constructing of an ice rink; and for operating expenses.

● Economy Portable Building Mfg. Co., Winnetka, Ill.
Dec. 3 (letter of notification) 6,750 shares of common stock (par $10) and 2,700 shares of 6% non-cumulative preferred stock (at par $25). Price, par for both issues. No underwriting. To acquire certain assets of Economy Portable Housing Co. and the entire capital stock of Economy Portable Building Co.

● Electrical Products Securities Corp., Houston, Texas
Nov. 29 (letter of notification) 100 shares of preferred (par $100), $50,000 of 9-year enhancement bonds, $35,000 of 10-year 8% convertible bonds and 500 shares of common stock (price $10). **Underwriter**—Trustee Securities Co.

Family Finance Corp.
Sept. 2 filed 25,000 shares 4½% cumulative preference stock, series A (par $50) (convertible to and including Aug. 1, 1956) and 97,580 shares ($1 par) common stock to be reserved for conversion of the preferred stock. **Underwriter**—E. H. Rollins & Son, Inc. **Proceeds**—To reduce outstanding bank loans and commercial paper. Postponed.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders in ratio of one additional shares for each four shares held. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes. Offering postponed.

● Fram Corp., East Providence, R. I.
Dec. 3 (letter of notification) 12,000 shares of 5% preferred stock (par $25). Price, par. No underwriting. For additional working capital.

● Front Range Mines, Inc., Denver, Colo.
Nov. 29 (letter of notification) 150,000 shares of common stock (price $10). **Underwriter**—Trustee Securities Marple & Co. For development and operation expenses.

Fuller Brush Co., Hartford, Conn.
Nov. 8 filed 11,606 shares of 4½% cumulative nonvoting first preferred stock ($100 par). **Underwriting**—None. Price, par. **Proceeds**—To increase working capital.

● Gary Publishers Service, Inc., New York
Dec. 6 (letter of notification) 20,000 shares of preferred stock. **Price**—$10 per share. **Underwriting**—None. Purchase printing plant, new equipment and expansion.

Gulf Insurance Co., Dallas, Texas
Nov. 15 (letter of notification) 10,000 shares of common stock (par $10). To be offered for subscription by stockholders in ratio of one new share for each 12 shares held. **Price**—$27.50 per share to stockholders. On rights not exercised stock will be sold to public at $30 per share. No underwriting. To increase capital and surplus funds.

Hajoca Corp., Philadelphia
Nov. 5 (letter of notification) 5,756 shares of common stock (par $1) for sale to existing stockholders and 1,000 shares for sale to employees. **Price**—$35 to stockholders; $40 to employees. Stockholders of record Nov. 15 were given the right to subscribe in ratio of one new share for each 20 shares held. Rights expire Dec. 15. **Underwriting**—None. Working capital.

● Hardy Continental Hotel Systems, Inc., Lansing, Mich.
Nov. 29 (letter of notification) $25,800 in notes. No underwriting. To pay for part of the furnishings and lease on hotel.

Harwill, Inc., St. Charles, Mich.
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

NEW ISSUE CALENDAR

December 9, 1948

New York Central RR., Noon (EST)..Eq. Trust Ctfs.

December 13, 1948

American Bemberg Corp., 3:30 p.m. (EST)..Stocks
New Bedford Gas & Edison Light Co., 11:30 a.m. (EST)..Notes
North Amer. Rayon Corp., 3:30 p.m. (EST)..Stocks

December 14, 1948

Long Island RR., Noon (EST)....Equip. Trust Ctfs.

December 15, 1948

Comas Cigarette Machine Co., Noon (EST)..Com.
Detroit Edison Co..Common
Southern Pacific Co., Noon (EST)..Eq. Trust Ctfs.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Hotelevision, Inc., Long Island City, N. Y.
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$10 per share. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

● **Ideal Baking Co., Inc., Panama City, Fla.**
Nov. 29 (letter of notification) $20,000 debentures. No underwriting. To purchase Woods Baking Co. and for operation capital.

Inter-Mountain Telephone Co., Bristol, Tenn.
Oct. 20 filed 95,000 shares of common stock (par $10). **Underwriters**—Courts & Co.; Equitable Securities Corp.; Scott, Horner & Mason; Mason-Hagan, Inc.; Clement A. Evans & Co. **Offering**—Two principal stockholders, Southern Bell Telephone & Telegraph Co. and Chesapeake & Potomac Telephone Co. of Virginia, intend to exercise their warrants to purchase 42,776 shares. The remaining shares are offered for subscription by stockholders of record Nov. 8 on a share-for-share basis. Rights expire Dec. 15 **Price**—$10 per share. **Proceeds**—For expansion.

Johnson Bronze Co., New Castle, Pa.
Oct. 27 filed 125,000 shares (50¢ par) common on behalf of executors of the estate of P. J. Flaherty. **Underwriter**—McDonald & Co., Cleveland. Indefinitely postponed.

● **Kendall Co., Boston, Mass.**
Dec. 2 (letter of notification) 4,000 shares of common stock (no par). Price at market. **Underwriter**—The First Boston Corp.

Kingsburg (Calif.) Cotton Oil Co.
Nov. 17 (letter of notification) 76,302 shares of common stock. **Offering** — Warrants will be issued to common shareholders entitling them to purchase one share of common for each five shares held of record on Nov. 30, at $2.50 per share. Underwriting, none. To reimburse the treasury for amount spent for capital improvements.

Lakeside Laboratories, Inc., Milwaukee, Wisc.
Nov. 19 (letter of notification) 1,000 shares of common stock. **Price**—$6.50 per share. **Underwriter**—Loewi & Co. To increase working capital.

● **Lavey Pottery & Tile Co., Milan, O.**
Dec. 1 (letter of notification) 1,150 shares ($100 par) common stock. Price, par. No underwriting. To purchase and install machinery.

● **Marine Magnesium Products Corp., San Francisco, Calif.**
Nov. 29 (letter of notification) 5,500 shares of common capital stock ($1 par). **Price**—$18 per share. **Underwriters**—Maxwell, Marshall & Co., and Flynn & Levitt, Los Angeles.

Masonite Corp., Chicago, Ill.
Nov. 5 filed 81,250 shares (no par) common stock. **Proceeds**—To be exchanged for Marsh Wall Products, Inc., stock (par $1) with holders of Marsh common to be allowed to exchange their holdings on the basis of eight shares for one share of Masonite stock.

Mississippi Power & Light Co.
Nov. 30 filed $7,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp. and Shields & Co. (jointly). **Proceeds**—To finance in part company's construction program and other corporate purposes.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

Mt. Vernon (Ohio) Telephone Corp.
Oct. 25 (letter of notification) 3,000 shares of 4¼% cumulative preferred stock (par $100). Price, par. No underwriter. To reimburse the treasury for capital expenditures.

● **Mutual Mining Co., Fredericktown, Mo.**
Nov. 29 (letter of notification) 22,000 shares of common stock. **Price**—$10 per share. No underwriting. For working capital, exploration and development.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

● **National Tuna Clippers, Inc., San Diego, Calif.**
Nov. 30 (letter of notification) 30,000 shares ($10 par) 6% cumulative preferred stock, nonassessable and nonconvertible. Price, par. No underwriting. For general corporate purposes.

New Bedford Gas & Edison Light Co. (12/13)
Nov. 9 filed $5,000,000 25-year notes, series A, due 1973. **Underwriters** — Names to be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Proceeds**—For payment of notes held by First National Bank of Boston and to repay company's plant replacement fund from which funds were borrowed for construction. **Bids**—Bids for purchase of the notes will be received up to 11:30 a.m. (EST) Dec. 13 at company's office, 10 Temple Street, Cambridge, Mass.

● **New London Freight Lines, Inc.**
Dec. 6 (letter of notification) 1,550 shares of common stock (par $100). Price, par. Stock will be purchased by H. Chester Swezey, President, for investment. Reconversion of motor vessel and working capital.

North American Rayon Corp. (12/13)
Oct. 19 filed (by Attorney General of United States) 177,398 shares of common stock (no par) class C, and 88,853 shares of common stock (no par) class D. **Underwriters**—Stocks will be sold at competitive bidding: Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Bids**—Bids for the purchase of the stock will be received at the Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST), Dec. 13.

● **Northern Petroleum Co., Denver, Colo.**
Dec. 2 (letter of notification) 3,000,000 shares of common stock (par 10¢). Price, par. No underwriting. For drilling operations.

Orangeburg (N. Y.) Manufacturing Co., Inc.
Oct. 29 (letter of notification) 2,000 shares of common stock (par $10). **Price**—$16 per share. **Underwriter**—Kebbon, McCormick & Co., Chicago. Proceeds to selling stockholders.

Perval Corp., New York
Nov. 16 (letter of notification) 24,079 shares of capital stock. **Price**—$2.50 per share. To be offered for subscription by stockholders of record Nov. 24 in ratio of one new share for each three shares held. Rights expire Dec. 15. **Underwriting**—None. Expansion of manufacturing facilities, working capital.

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

Quebec Oil Development Ltd., Montreal, Can.
Aug. 4 filed 2,000,000 shares of capital stock, ($1 par Canadian funds). **Underwriter**—Hiscox, Van Meter & Co., Inc. Price, $1 per share (United States funds). For each 20,000 shares of stock sold, the company will deliver to the underwriter stock purchase warrants entitling the holder to purchase, on or before Sept. 1, 1950, 1,000 shares of capital stock of the company at $1.50 per share. **Proceeds**—For drilling operations.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

River Valley Finance Co., Davenport, Ia.
Nov. 22 (letter of notification) 1,000 shares of 6% preferred stock (par $100). Price, par. **Underwriter**—Quail & Co., Danvenport, Ia. To increase working capital.

Robinson Plywood & Timber Co., Everett, Washington
Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. Indefinitely postponed.

● **Rohm & Haas Co., Philadelphia, Pa.**
Dec. 2 15,816 shares of 4% cumulative preferred stock, series "A" (par $100) and 197,697 shares of common (par $20) offering being proposed by U. S. Attorney General, Office of Alien Property Custodian, at competitive bidding. An additional 5,410 shares of preferred and 67,627 shares of common are included in the registration but they are not being offered at this time because of a pending suit for return of these shares under the Trading with the Enemy Act.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). **Price**, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

● **St. Croix, Inc., Minneapolis, Minn.**
Nov. 30 (letter of notification) 20,000 shares ($1 par) preferred stock and 100 shares (no par) stock. No underwriting. For purchase of raw materials.

Schrader (H. J.) & Co., South Bend, Ind.
Oct. 5 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $100) and 37,500 shares of class B (no par) common. **Underwriter**—Harrison & Austin, Inc., South Bend, Ind. **Price**—Preferred par; common 25¢ per share. For working capital and to carry conditional sales contracts.

Silver Crescent, Inc., Kellogg, Idaho
Oct. 30 (letter of notification) 550,000 shares of assessable stock. **Price**—18¢ per share. **Underwriters**—R. L. Emacio & Co., Inc., and Hachez & Brown, Inc., Spokane, Wash. For mining operations.

Silver Diner Corp., New York
Nov. 17 (letter of notification) 299,000 shares of common stock (par $1). Price, par. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Working capital. Expected early next year.

Silver Ridge Mining Co., Ltd., Nelson, B. C.
Aug. 24 filed 940,000 shares of common stock (50¢ par). **Underwriters**—Harry P. Pearson, managing director of company. **Price**—20¢ per share U. S. funds. **Proceeds**—for exploration and other development work, to pay off loans and for other purposes.

Smith (C. D.) Co., Grand Junction, Colo.
Nov. 22 (letter of notification) 1,500 shares ($50 par) 5½% cumulative preferred stock. **Price**—$51 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For additional working capital and to reduce amount of short-term bank loans.

Southern Indiana Gas & Electric Co.
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments. Offering deferred.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Price**—$1 per share. **Underwriter**—J. J. Le Done Co., Petroleum Equities Corp., New York. **Proceeds**—For working capital and general corporate purposes.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

Southwestern Investment Co.
Nov. 12 filed 33,880 shares (no par) common stock. **Underwriters**—Schneider, Bernet & Hickman; G. H. Walker & Co.; Dewar, Robertson & Pancoast; Underwood, Neuhaus & Co. **Offering**—To be offered initially for subscription by stockholders at about $16.75 per share. **Proceeds**—To increase working capital.

Surety Oil Co., Ltd.
Nov. 18 filed 999,993 shares of common stock (par $1). **Underwriter**—Willis E. Burnside & Co., Inc., New York. **Proceeds**—For payment of moneys which was used in connection with company's organization and acquisition of certain properties; corporate purposes.

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Taylor Food Co., Raleigh, N. C.

Nov. 5 (letter of notification) 23,000 shares of common stock (par $1). **Price**—$1.75 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For purchase of additional machinery, to defray the costs of sales promotion and for working capital.

Mrs. Tucker's Foods, Inc., Sherman, Texas

Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc. **Proceeds**—For general corporate purposes.

Unexcelled Chemical Corp., New York

Nov. 8 (letter of notification) 52,095 shares of capital stock (par $5). Price, par. **Underwriting**—None. Offered existing stockholders of record Nov. 16 in ratio of one new share for each five shares held. Rights expire Dec. 16. Additional working capital.

United States Life Insurance Co. in the City of New York

Nov. 18 (letter of notification) 62,000 shares of capital stock (par $4), exclusive of 63,000 shares to be issued to C. V. Starr at $4 per share for investment. American International Co., Inc., will acquire and hold for investment 46,640 shares and will assign 6,000 shares (of the 62,000 shares) to six individuals at $4 per share. The balance (9,360 shares) is being offered to other stockholders of record Nov. 24 at $4 per share on a share for share basis. Rights expire Dec. 15. C. V. Starr has offered to purchase any shares not taken by stockholders. Proceeds will be used to increase capital to be used in company's insurance business.

United Utilities & Specialty Corp.

Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.

Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Utah Ice & Storage Co., Colorado Springs, Colorado

Nov. 15 (letter of notification) $100,000 first mortgage 5% bonds, due 1954. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For acquisition of plant and business of Montana Service Corp.

● **Veterans Tobacco Corp., Washington, D. C.**

Nov. 26 (letter of notification) 54,000 shares of common stock (par $1). Price, par. No underwriting. To produce a cigarette and defray costs of recapitalization.

● **Waukesha (Wis.) Motor Co.**

Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—To be offered to stockholders of record Jan. 3 at rate of one new for each two shares held. **Underwriting**—Company will pay fees to selected investment dealers for securing the exercise of subscription warrants. Robert W. Baird & Co. Inc. will be dealer-manager. **Proceeds**—To carry possible increase of accounts receivable and inventories and to provide for plant improvement.

● **Western Pacific RR. Corp.**

Dec. 3 (letter of notification) 10,794 shares of 6% preferred stock. **Price**—$4 per share. **Underwriting**—None. To meet current corporate expenses including necessary cash outlays in connection with certain litigations.

Wiegand (Edwin L.) Co., Pittsburgh

Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

Wireway Sales Corp., New York

Nov. 17 (letter of notification) 299,000 shares of common stock (par 10c). **Price**—$1 per share. **Underwriter**—Mercer Hicks & Co., New York. Corporate purposes.

Prospective Offerings

Comas Cigarette Machine Co., Inc. (12/15)

The Attorney General of the United States invites bids for the purchase of all or any part of 250 shares of the common stock (par $50) (said shares constituting 5% of the total issued and outstanding capital stock) of the company. All bids must be presented at the Office of Alien Property, Department of Justice, 120 Broadway, New York 5, N. Y., on or before noon Dec. 15 (EST).

Detroit Edison Co. (12/15)

The United Light & Railways Co. has asked the SEC for permission to sell at competitive bidding 78,270 shares of Detroit Edison Co. common stock (par $20). United wants to open bids on the stock on or about Dec. 15. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Coffin & Burr, Inc., and Spencer Trask & Co. (jointly); Otis & Co.

● **Federal Machine & Welder Co.**

Dec. 2 stockholders authorized 40,000 shares 5% non-convertible preferred stock (par $100) to be publicly offered. No arrangements have been made for the offering.

● **Garod Radio & Television Corp.**

Dec. 6 reported company plans sale of securities early in 1949 through Straus & Blosser, Chicago.

● **Gulf States Utilities Co.**

Dec. 8 preferred stockhoders approved issuance of $15,000,000 twenty-year debentures to be dated Jan. 1, 1949. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Stone & Webster Securities Corp. It is thought that company may also elect to raise funds through sale of additional common stock, coincident with the debenture offering.

Long Island RR. (12/14)

Company will receive bids at Room 1811, Broad Street Station Bldg., Philadelphia, up to noon (EST) Dec. 14 for the purchase of $5,445,000 equipment trust certificates series K. The certificates, dated May 1, 1948, will mature in 15 equal annual instalments of $363,000 May 1, 1949-1963. Probable bidders: Harriman Ripley & Co. and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.)

New York Central RR. (12/9)

The company will receive bids up to noon (EST) Dec. 9 for the purchase of $9,720,000 equipment trust certificates, to be dated Jan. 1, 1949. Bidders are asked to name either 10-year or 15-year serial maturities. Proceeds will finance up to 75% of the cost of equipment estimated at $13,338,000. Probable bidders: Harriman Ripley & Co. and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler.

● **Northern National Gas Co.**

Dec. 1 company plans to offer in January, 1949 (subject to market conditions), 406,000 common shares (par $10) to stockholders on basis of one new for each five shares held.

Southern Pacific Co. (12/15)

Company will receive bids up to noon (EST) Dec. 15 at its office Room 2117, 165 Broadway, New York, for the purchase of $15,740,000 equipment trust certificates, series Z, to mature in 10 equal annual instalments, and to be secured by new railroad equipment costing not less than $23,610,000. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

Our Reporter's Report

The damage that loose gossip, even though not intentionally malicious, can do was rather clearly demonstrated this week in connection with the flotation of American Telephone & Telegraph Co.'s huge $150,000,000 issue of new 25-year debentures.

Fortunately the effect of these rumors was short-lived and quickly overcome. But for a matter of a few hours it must have been embarrassing to the people who won the big issue in competitive bidding.

The successful group paid the company a price of 100.71 for the debentures with a 3⅜% coupon, and proceeded with reoffering at a price of 101.61 to give an indicated yield of 3.28%.

Orders reportedly began to pour in from institutions, notably savings banks. But suddenly there was a lull which later was traced to reports, since proven ungrounded, that the syndicate would adjust its offering price.

The only explanation, it appeared, was some chance remark that the sponsors could adjust to a 3.30 basis and still make money. This built up to snowball proportions, reaching the Coast and into Canada.

Once it became evident that no price adjustment was intended, however, demand reasserted itself with the result that it appeared the entire issue would be out of the syndicate's hands almost before the end of the initial day.

Bidding Runs Close

That investment bankers are thinking pretty much along the same lines from a standpoint of price in bidding for new issues, becomes increasingly apparent.

Not a single given issue in recent weeks has found the spread between bids of the winner and the runner-up very far apart. In the case of A. T. & T.'s immense issue it developed that the two competing syndicates were apart by a matter of only 41 cents per $1,000 bond, or but $61,500 on the entire $150,000,000 principal amount.

The two top bids for Alabama Power Co.'s $12,000,000 of new first mortgage 3-year bonds was even closer, 29.9 cents a thousand, or but $3,599 on the overall issue.

Aviation Capital Needs

Judging from some of the material being turned up at the Investment Bankers Convention in Hollywood, Fla., the underwriters are keeping on their toes in seeking to develop new business sources though their findings are not always heartening.

As an example, a study presented by one committee indicated that the country's airlines are in need of some $225,000,000 of new capital for new equipment and refinancing themselves.

But momentarily their credit position is not such as to permit large-scale undertakings, the survey indicates, though it observes that the industry's position is improving and could be decidedly better in a matter of two or three years.

Bits and Pieces

Generally speaking, those in close touch with the new issue market find that such undertakings have been moving out rather well. Not all have cleaned up immediately but substantial progress has been the rule in most cases.

It is still possible to pick up lots of some recent emissions, though unsold balances according to observers are not of proportions to be considered burdensome.

Among the recent issues listed as still being available are Public Service Electric & Gas, Dayton Power & Light, Georgia Power, Carolina Power & Light, Transcontinental Gas Pipe Line Co., units of notes and common stock and Northern Natural Gas serials.

Into the Grass Roots

The retiring head of the IBA Julien H. Collins, of Chicago, literally told his business associates to "Go West" in opening up the group's annual convention this week.

Only recently another Middle Western banker, making a visit to New York, expressed pretty much the same beliefs as Mr. Collins when the latter urged underwriters to use improved methods of solicitation designed to reach thousands who hold "unprecedented amounts of liquid assets."

These people, he declared, are to be found in rural communities and "off the main roads of the nation's cities and towns."

W. C. Langley Offers Potomac Edison Pfd.

A new issue of 30,000 shares of 4.70% cumulative preferred stock series B, of the Potomac Edison Co., par value $100 per share, was offered Dec. 7 by a group of underwriters headed by W. C. Langley & Co. The stock is priced at $100 per share plus accrued dividends.

Proceeds of the offering together with other funds, will be applied to the cost of the presently contemplated construction program of the company and its subsidiaries.

The shares will have a 2½% annual purchase fund and may be redeemed as a whole or in part by lot, at the option of the company at any time, upon at least 30 days' notice, at prices ranging from $104 up to and including Nov. 1, 1953, down to $101 per share after Nov. 1, 1958, together with all accrued and unpaid dividends.

The company was incorporated under the laws of the State of Maryland on Dec. 31, 1923, as a consolidation of the Potomac Public Service Co. and a former The Potomac Edison Co. The principal business of the company and its subsidiaries is the production, distribution and sale of electric energy in adjacent portions of the States of Maryland, Virginia, West Virginia, and Pennsylvania. The territory in which the company and subsidiaries furnish electric service has a population of approximately 460,000 with an area of about 7 990 square miles.

During the 12 months ended Aug. 31, 1948, consolidated operating revenues of the company and its subsidiaries were derived approximately as follows: Electric, 82%; bus, 16%, miscellaneous, 2%.

Consolidated net income of the company and its subsidiaries for the year of 1947 was $2,740,516, while during the eight months ended August, 1948, net income was $1,942,369.

Halsey, Stuart Group Offers Ala. Pwr. Bonds

Halsey, Stuart & Co. Inc. heads an underwriting group that is offering publicly today (Thursday) $12,000,000 Alabama Power Co. first mortgage bonds, 3⅜% series due Dec. 1, 1978, at 102¾% and accrued interest. The group was awarded the bonds at competitive sale on its bid of 102.09391.

Net proceeds will be used by the company to finance improvements, extensions, and additions to its utility plant or for the discharge of its obligations incurred for these purposes. The company has made and contemplates making expenditures of approximately $57,000,000 during 1948, 1949 and 1950 for the construction or acquisition of property additions.

Regular redemption prices for the new bonds range from 106¾% to 100%, while special redemption prices are scaled from 102¾% to 100%.

The company is one of four operating subsidiaries of The Southern Company which is in turn a subsidiary of The Commonwealth & Southern Corp. (Del.). Alabama is engaged in the generation and purchase of electric energy and its distribution and sale at retail in 571 Alabama cities and towns, incorporated and unincorporated, as well as in rural areas and the sale at wholesale of electric energy to two non-affiliated utility companies, one of which is Birmingham Electric Co. serving Birmingham and adjoining communities, to 10 municipalities and to 12 rural cooperative associations; and, incident to its electric business, the sale of appliances. The company is also engaged in the operation of a coal mine at Gorgas, Ala., all the output of which is used in its steam electric generating plants.

Observations

(Continued from page 5)

to say whether [sic] he would ask for a revival of a modified form of the wartime excess profits tax." Such pussyfooting—manifesting the President of the United States' unwillingness or inability to recognize the disastrous nature of such taxation.)

Lip Service by the Secretary of Commerce

Along the same reassurance-strategy lines were the public relations surrounding Secretary of Commerce Sawyer's speech before the NAM meeting in New York on Dec. 3. Three days before the speech, captioned "Teamwork for Prosperity," was to be delivered the Secretary announced in Washington that it had been cleared by President Truman and indicated that it would bear out his conviction that nothing in the Administration's program should cause any "legitimate" businessman to be fearful.

Even this address by the Administration's Number-One-Appeaser epitomizes the running contradiction between lip service to the glory of free enterprise on the one hand and socialist philosophy on the other. For, scrutiny of the talk reveals the following excerpts which slipped in as offsets to his general profession of solicitude for the free economy and the profit system:

"As we produce more we must steadily increase mass purchasing power."

"Our first objective is to maintain full employment and continue to produce at high levels. This was clearly stated as our national policy in the Employment Act of 1946."

"We should transfer the excitement and all-out sacrifice and cooperation of war to the pursuits of peace." (The wartime framework of psychology and techniques paved the way for the British Labor Government's accession to power as well as its administrative super-bureaucracy.)

And the following, despite the professed emphasis on objective information, may give rise to worry over basic implications:

"We must face the fact that we may not be able to produce enough immediately to supply consumers with all they would like to buy and businessmen with all the capital goods they would like to procure, and at the same time do all we must do in the way of national defense, foreign aid and other government expenditures. To the extent that supply and demand are still out of balance, a major reliance must be placed on restricting demand.

"In analyzing this situation, and developing an adequate basis for current decision, it is the first responsibility of business and government to provide themselves with the facts about production and distribution, spending and saving, investment and employment. This is a cooperative job, and it has been carried on through the teamwork between industry and the statistical agencies of the government for many years. In the past two years the government has increased its facilities for interpreting the facts supplied by business. In addition to the long-established analytical staffs of the Department of Commerce and many other economic agencies, we now have the President's Council of Economic Advisers and the Congressional Joint Committee on the Economic Report. These groups are expertly staffed to analyze statistical information and to chart the health of the economy. The supplying and compiling of the information upon which the diagnosis is based is a natural and highly successful joint enterprise of business and government.

"When the diagnosis of our economy shows that critical shortages are putting pressure on certain segments of industry, business should try to find the remedy. Sometimes business cannot take necessary action to relieve these shortages without the cooperation of government. . . ."

First Boston-Halsey, Stuart Group Sells $150,000,000 American Telephone Debs.

A nation-wide investment banking group headed jointly by The First Boston Corp. and Halsey, Stuart & Co. Inc. offered to the public Dec. 7 a new issue of $150,000,000 American Telephone & Telegraph Co. 3⅜% debentures due 1973. The debentures, priced at 101.61 and accrued interest to yield approximately 3.28% to maturity, were oversubscribed it was announced. The issue was awarded on Dec. 8 to the group at competitive sale on Tuesday.

The offering represents the largest individual corporate public financing operation this year and is one of the largest corporate bond issues ever sold at competitive bidding.

Proceeds from the sale will be used by the company for advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant and for general corporate purposes.

The prospectus points out that since the end of the war construction activities of the company have increased substantially and currently are the greatest in history. The expenditures for new construction amounted to $1,185,000,000 for 1947 and were $1,089,000,000 for the first nine months of 1948.

The new debentures are subject to redemption at 104.61 if redeemed, to and including Nov. 30, 1954, and thereafter at prices scaling down to 100.29 to and including Nov. 30, 1968, and thereafter at 100, in each case with accrued interest.

Giving effect to this financing, American Telephone and Telegraph Co. will have outstanding total funded debt of $1,725,802.300 and 23,084,808 shares of capital stock, par value $100 per share.

The company and its principal telephone subsidiaries had 30,657,725 telephones in service at Sept. 30, 1948. Despite a steady increase in the number of telephone installations in recent years, the company has approximately 1,250,000 unfilled applications for telephone service.

With E. D. Baring-Gould

(Special to The Financial Chronicle)

SANTA BARBARA, CAL.—George A. Dazey is with E. D. Baring-Gould, 19 East Canon Perdido Street.

With Field, Richards & Co.

(Special to The Financial Chronicle)

CINCINNATI, OHIO—Roderick A. Dennis has been added to the staff of Field, Richards & Co., Union Central Bldg.

M. Mostyn-Brown Opens

(Special to The Financial Chronicle)

ATTLEBORO, MASS.—Maurice Mostyn-Brown has opened offices at 50 Maynard Street to distribute the securities of the Bay State Optical Co.

J. H. Goddard Adds

(Special to The Financial Chronicle)

BOSTON, MASS. — Maurice A. Baker has been added to the staff of J. H. Goddard & Co., Inc., 85 Devonshire Street.

DIVIDEND NOTICES

CALUMET AND HECLA CONSOLIDATED COPPER COMPANY

Dividend No. 63

A dividend of ten cents ($0.10) per share will be paid on December 27, 1948, to holders of the outstanding Capital Stock of the Calumet and Hecla Consolidated Copper Company of record at the close of business December 13, 1948. Checks will be mailed from the Old Colony Trust Company, Boston, Mass.

J. H. ELLIOTT, Secretary

Boston, Mass., December 2, 1948

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

New York, N. Y., November 30, 1948

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share, being Dividend No. 100, on the Preferred Capital Stock of this Company, payable February 1, 1949, out of undivided net profits for the year ended June 30, 1948, to holders of said Preferred Capital Stock registered on the books of the Company at the close of business December 31, 1948.

The Board also declared on this day a dividend of One Dollar and Fifty Cents ($1.50) per share, being Dividend No. 144, on the Common Capital Stock of this Company, payable March 2, 1949, to holders of said Common Capital Stock registered on the books of the Company at the close of business January 28, 1949.

Dividend checks will be mailed to holders of Preferred and Common Capital Stock who have filed suitable orders therefor at this office.

D. C. WILSON, Assistant Treasurer,
120 Broadway, New York 5, N. Y.

DIVIDEND NOTICES

The New York Central Railroad Co.

New York, December 8, 1948.

A dividend of Fifty Cents ($.50) per share on the capital stock of this Company has been declared payable January 15, 1949, at the Office of the Treasurer, 466 Lexington Avenue, New York 17, N. Y., to stockholders of record at the close of business December 22, 1948.

G. H. HOWE, Treasurer.

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK

On November 30, 1948 a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable January 3, 1949 to Stockholders of record at the close of business December 16, 1948. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

EATON & HOWARD BALANCED FUND

The Trustees have declared a dividend of forty cents ($.40) a share, payable December 24, 1948, to shareholders of record at the close of business December 15, 1948.

24 Federal Street, Boston

EATON & HOWARD STOCK FUND

The Trustees have declared a dividend of thirty-three cents ($.33) a share, payable December 24, 1948, to shareholders of record at the close of business December 15, 1948.

24 Federal Street, Boston

REYNOLDS METALS COMPANY

Reynolds Metals Building
Richmond 19, Virginia

COMMON STOCK

A dividend of ten percent (10%) on the outstanding common stock of the Company, has been declared payable December 31, 1948, in common stock of the Company, to holders of record at the close of business December 17, 1948. Scrip certificates will be issued for resulting fractional shares.

The transfer books will not be closed. Resulting stock and scrip certificates will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, *Secretary*

Dated December 2, 1948.

CHEMICALS · TEXTILES · PLASTICS

CELANESE CORPORATION OF AMERICA

180 Madison Avenue, New York 16, N. Y.

THE Board of Directors has this day declared the following dividends:

FIRST PREFERRED STOCK $4.75 SERIES

The regular quarterly dividend for the current quarter of $1.18¾ per share, payable January 1, 1949 to holders of record at the close of business December 17, 1948.

7% SECOND PREFERRED STOCK

The regular quarterly dividend for the current quarter of $1.75 per share, payable January 1, 1949 to holders of record at the close of business December 17, 1948.

COMMON STOCK

60 cents per share, payable December 31, 1948 to holders of record at the close of business December 17, 1948.

R. O. GILBERT
Secretary

December 7, 1948

DIVIDEND NOTICES

New York & Honduras Rosario Mining Company

120 Broadway, New York 5, N. Y.

December 8, 1948.

DIVIDEND NO. 385

The Board of Directors of this Company, at a meeting held this day, declared a dividend of Seventy Cents ($.70) per share on the outstanding capital stock, payable on January 6, 1949, to stockholders of record at the close of business on December 28, 1948. This distribution represents the final dividend in respect of earnings for the year 1948.

WILLIAM C. LANGLEY, Treasurer.

UNION CARBIDE AND CARBON CORPORATION

UCC

A cash dividend of Fifty cents (50¢) per share on the outstanding capital stock of this Corporation has been declared, payable January 3, 1949 to stockholders of record at the close of business December 10, 1948.

MORSE G. DIAL,
Secretary and Treasurer

REYNOLDS METALS COMPANY

Reynolds Metals Building
Richmond 19, Virginia

PREFERRED DIVIDEND
COMMON DIVIDEND

The regular dividend of one dollar thirty-seven and one-half cents ($1.375) a share on the outstanding 5½% cumulative convertible preferred stock has been declared for the quarter ending December 31, 1948, payable January 1, 1949, to holders of record at the close of business December 16, 1948.

A dividend of sixty cents (60¢) a share on the outstanding common stock has been declared payable December 27, 1948, to holders of record at the close of business December 16, 1948.

The transfer books will not be closed. Checks will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, *Secretary*

Dated December 2, 1948

GT

GENERAL TIME INSTRUMENTS CORPORATION

Dividends

The Board of Directors has declared the following dividends:

PREFERRED STOCK

The regular quarterly dividend of $1.06¼ on the 4¼ per cent cumulative preferred stock, payable January 3, 1949 to shareholders of record December 14, 1948.

COMMON STOCK

40 cents per share on the common stock, payable January 3, 1949 to shareholders of record December 14, 1948.

A stock dividend of 10 per cent, at the rate of one share for each ten shares held, payable in common stock on January 14, 1949 to common shareholders of record December 14, 1948. Payment in cash will be made in lieu of scrip certificates for fractional shares on the basis of the closing market price for the stock on the record date, or the last recorded bid price.

John H. Schmidt
Secretary-Treasurer

December 1, 1948.

WESTCLOX · BIG BEN · SETH THOMAS
STROMBERG RECORDERS · HAYDON MOTORS

WARD BAKING COMPANY

The Board of Directors has declared the following dividends:

PREFERRED DIVIDEND—
The quarterly dividend of $1.37½ a share on the Preferred Stock payable Jan. 1, 1949 to holders of record Dec. 13, 1948.

COMMON DIVIDEND—
A quarterly dividend of 25 cents a share on the Common Stock payable Dec. 27, 1948 to holders of record Dec. 13, 1948.

YEAR-END EXTRA DIVIDEND—
An extra dividend of 85 cents a share on the Common Stock payable Dec. 27, 1948 to holders of record Dec. 13, 1948.

L. T. Melly, Treasurer

WARDS TIP-TOP BREAD

475 Fifth Ave., New York City

December 2, 1948

WARDS TIP-TOP CAKES

HELP WANTED

MUNICIPAL ANALYST WANTED

Large well established house with strategically located branch offices, specializing in U. S. Government and Municipal business with banks and other institutions, has an opening for a senior municipal analyst who has had experience in reviewing institutional portfolios. An excellent opportunity for the right man in an expanding organization. Write in detail your qualifications and salary expectation. Our employees know of this advertisement. Address Box 34, Doremus & Company, Advertising Agents, 120 Broadway, New York 5.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

President Truman's new use of the Chairman of the Council on Economic Advisers—to coordinate thinking within the Administration on how to deal with economic matters—can very well turn out to be a regular and continuing function, it is believed.

Recently the President designated Dr. Edwin G. Nourse as coordinator of the Administration's program on economic matters. He is to reconcile thinking within the Administration on "anti-inflation" and other matters, and come up with a set of recommendations. In many ways this is looked up as a desirable permanent function for the CEA, or Council of Economic Advisers, taking it out of the ivory tower realm and balancing economic theory against practical problems of running a government. The CEA was set up by the Employment Act of 1946 to advise the President of those measures which should be recommended for maintaining full employment. After taking the recommendations of his Council of Economic Advisers, the President makes his own report of economic measures he recommends to Congress.

The new turn puts CEA more or less in front in devising economic planning, or at least it gives a greater importance to the Chairman of CEA, and probably to the organization as a whole.

In the current situation the President may be expected to get the balanced advice of an individual, Dr. Nourse, who leans toward no extremes in economic thinking, yet who apparently has in the past proved himself supple enough to recognize the practical problems of a political Administration. And under the new arrangement the entire Administration, not merely the President, gets his advice.

* * *

It is now possible to explain why Harry Truman loves Herbie Hoover and vice versa. On first thought the explanation sounds black indeed for those who believe in economy in government. On second thought, however, the concord reached between the President and the Chairman of the Hoover Commission doesn't sound so bad, in the light of all the circumstances of the day.

When Congress created the Hoover Commission to study the organization of the government (note, not just "reorganization") it was with the idea that the Commission should recommend not merely "streamlining" of government agencies, but an examination of whole functions of the government with a view to economy.

The Commission at first took this mandate seriously. Its friends explained that the Commission would not merely toss around government agencies from one department to another, from one corporation to another, and so on, so as to get "like functions placed under like management." In other words, it was not just to be an idea of developing more beautiful and better flow charts for the Administrators to play with, not merely a matter of putting the square pegs of government agencies in square holes and the round pegs in round holes.

Mr. Hoover himself in a speech in September in Washington, emphasized the economy function. He raised the doubt that the government could support forever all the numerous services it has undertaken. The goal was primarily economy, and economy only could be brought about by curtailing functions and by returning to the states many of the functions usurped by the Federal Government.

* * *

Now all this is changed. The Hoover Commission has all but given up the idea of recommending the dropping of any benefices from Uncle Sam to the umteen pressure groups. The Commission is not likely to say that a whole host of state and local responsibilities grabbed with alacrity by the ambitious bureaucrats in Washington, should be turned back to the states. Nothing in the Hoover Commission report is expected to recommend the dropping of any significant number of Federal employees from the green check list.

That is why Mr. Truman wrote his caressing letter to the former GOP President and praised the latter's work, and why now and then Mr. Hoover and Mr. Truman have such friendly discussions at the White House.

From now on it is reorganization and improved business administration as such. Anything like curtailment of whole functions or passing them back to the states will, if included at all, be purely minor and coincidental. There will be this business about consolidating administrative functions "under one tent," this business of a single Department of Welfare which all the liberals, self-styled, have wanted any how. There will be more like this business of introducing modern business methods in government procurement, and so on.

* * *

What is behind this shift to the milk and water approach of the Hoover Commission is the Nov. 2 election. If Mr. Dewey had won, he might have undertaken that wholesale house-cleaning he promised. In any event a thorough study by a group of non-partisan experts of government extravagance and ways of curtailing it, might have provided a peg around which a substantial economy drive could get under way.

It became evident with the 304 electoral votes of Mr. Truman, that anything like a house-cleaning in Washington was distinctly in the realm of the make-believe. This left the Hoover Commission with but two alternatives. One was to go ahead fearlessly and with high mental integrity toward devising a report for curtailment of the Federal establishment, even if the Commission knew in advance its efforts were merely mental exercises.

If the Commission had stuck to that line, its net result would have been to provide good winter reading for a few serious minded people, a little ammunition for economy speeches few would pay much attention to. Certainly the results in the way of getting anything adopted by the White House and Congress would have been nil.

* * *

The other approach was to work out a limited set of recommendations not touching the heart-strings or purse strings of the pressure groups, but to concentrate on good, business-like Administration. This the Hoover Commission is doing. Mr. Hoover's group seems to be coming up with at least apparently good recommendations along this line. Few doubt that there are many ways by which the huge Federal establishment might be made to operate with less waste.

By adopting the second alternative, the Hoover Commission has taken the strictly realistic approach. Neither Mr. Truman nor most of those surrounding him have been noted for efficient Administration. On the other hand, there is no reason to believe that Mr. Truman is opposed to efficient Administration as such as long as it does not mean immediate firing of tens of thousands of government employees and the cutting out of government services.

Actually, the Hoover Commission may recommend economies and better ways of doing business which may save hundreds of millions, even if not the billions puffed up in the daily press accounts. He seems to be doing a good job of selling Mr. Truman on efficient Administration.

So it will be a case of better a twentieth of a loaf than none.

* * *

The "twentieth of a loaf" will come about gradually and slowly. No employee's job surplus under more efficient reorganization will be taken from him. But as normal separations occur, the surplus persons will be moved over for replacement, and new personnel will not be hired to fill vacancies. It is estimated that the normal volume of voluntary separations from the government is now about 500,000 yearly. Thus, for example, if 10 persons are buying motor vehicles for the civilian establishment and five are buying sewing machines, but only seven are needed buying cars and two buying sewing machines, when four of the sewing machine buyers quit or get shifted to other jobs one of the men buying cars may have to learn to buy sewing machines, and the other two copper wire for the Rural Electrification, and so on.

* * *

There is little significance to the Flanders subcommittee hearings on corporate profits, except headlines that occasionally may make business feel happy and at times sad. Senator Flanders is trying to give a forum both to those who point out that high profits are not all that they seem to be, and to the labor boys and New Dealers who see in high profits an excuse for both the fourth round of wage increases and the Administration's bid for an excess profits tax. The latter is still not billed to win unless President Truman strains every muscle to get it and even then it may fail.

* * *

It may not kill any pretty New Deal public housing program, but for the first time a voice of local government will be raised, if not against Federal spending, at least on behalf of moderation.

Heretofore the "voice of cities" in America has been the U. S. Conference of Mayors. These generally are the mayors of the big cities, and incidentally feel the pulse of big city political machines. There is another organization, the American Municipal Association, composed preponderantly of the executives, including city managers, of medium and small cities, and state leagues of municipalities.

For years the American Municipal association has fought shy of resolving formally and in national conclave on national issues. It is meeting in Washington in a couple of days to resolve on housing and several other subjects. Whereas the approach of the big city mayors to Federal officials has been generally with the hand outstretched, palm upward, the smaller city officials of the AMA are worried about the loss of local responsibility and local authority via the Federal hand-out route.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Do you mind explaining why on our liabilities sheet there's a Miss Mazie O'Toole listed?"

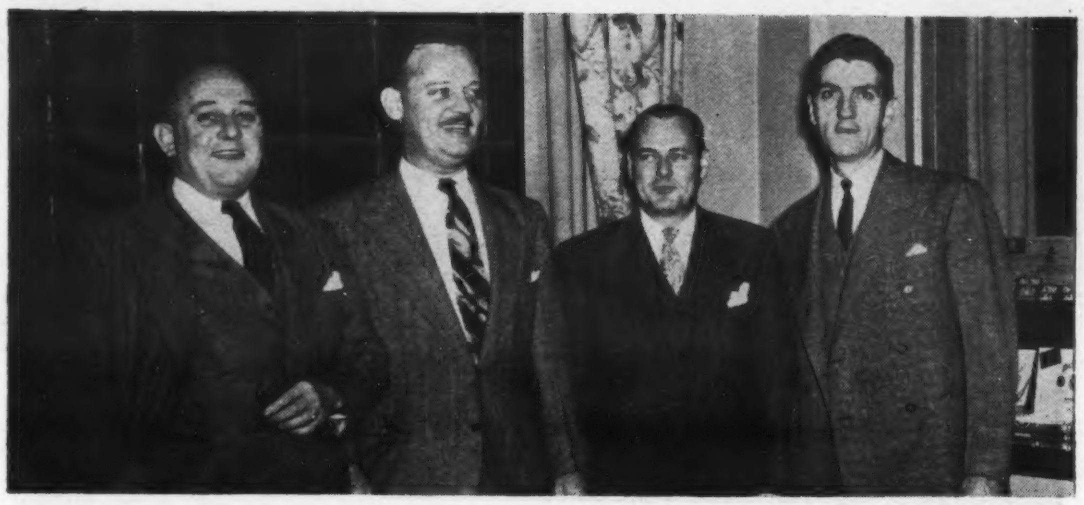
Allan Blair & Co. Is Formed in Chicago

CHICAGO, ILL.—Allan Blair & Company has been formed with offices at 39 South La Salle Street, to engage in a securities business. Allan Blair was formerly a partner of Voss, Blair & Company.

DeCoppet & Doremus To Admit

Richard F. Babcock will be admitted to partnership in De Coppet & Doremus, 63 Wall Street, New York City, members of the New York Stock Exchange, as of Jan. 1.

Security Traders Association of New York

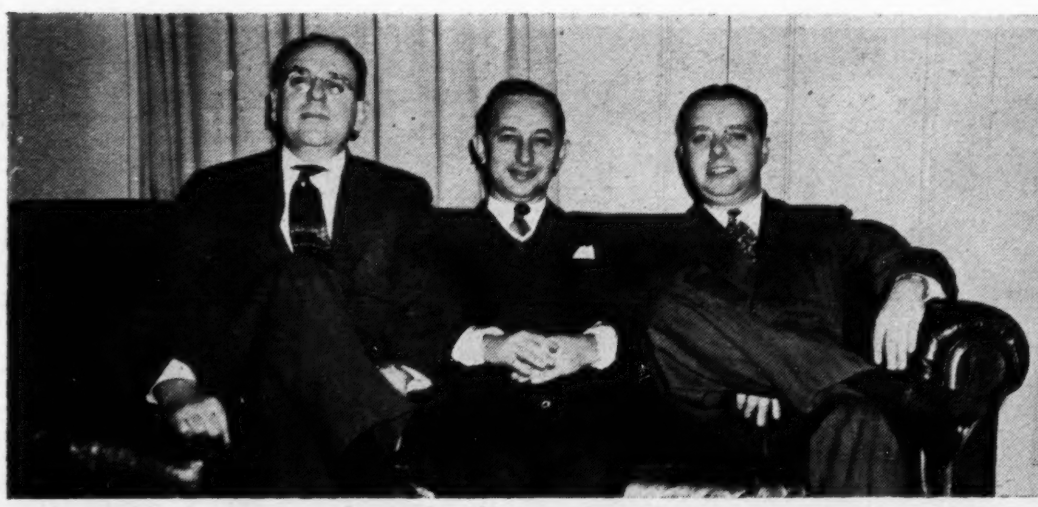


Otto Berwald, *Berwald & Co.;* Charles O'Brien Murphy III, *Merrill Lynch, Pierce, Fenner & Beane;* King Ghegan, *Schafer, Miller & Co.;* Ernest N. Robb, *Paine, Webber, Jackson & Curtis*

John F. McLaughlin, *McLaughlin, Reuss & Co.;* John M. Mayer, *Merrill Lynch, Pierce, Fenner & Beane;* D. Fred Barton, *Eastman, Dillon & Co.;* Harry L. Arnold, *Paine, Webber, Jackson & Curtis*

Jim Musson, *B. J. Van Ingen & Co., Inc.;* Lloyd B. Hatcher, *Trust Co. of Georgia;* Ken C. Ebbitt, *Shelby Cullom Davis & Co.;* Harry J. Peiser, *Ira Haupt & Co.*

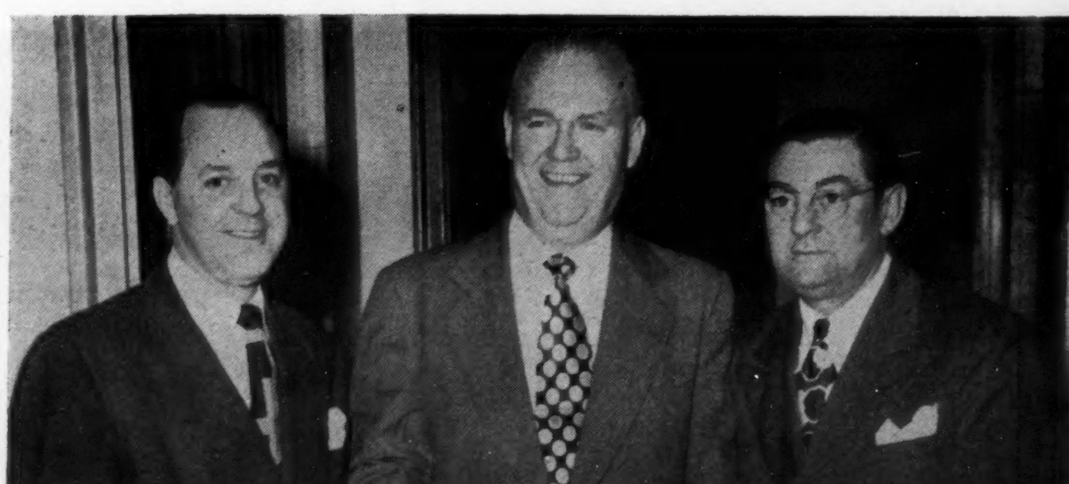
Irving P. Grace, *W. C. Pitfield & Co.;* Joseph S. Nye, *Freeman & Co.;* Frederick R. Eisele, *Freeman & Co.;* Thomas L. Curry, *Stone & Webster Securities Corp.*



Homer Wirth, *Mabon & Co.;* Bill Eiger, *Hart Smith & Co.;* Charles M. Zingraf, *Laurence M. Marks & Co.*

Ralph T. Tyner, Jr., *Peabody, Tyner & Co.,* Mt. Vernon, N. Y.; Soren D. Nielsen, *New York Hanseatic Corporation* (at piano); Arnold J. Wechsler, *Ogden, Wechsler & Co.*

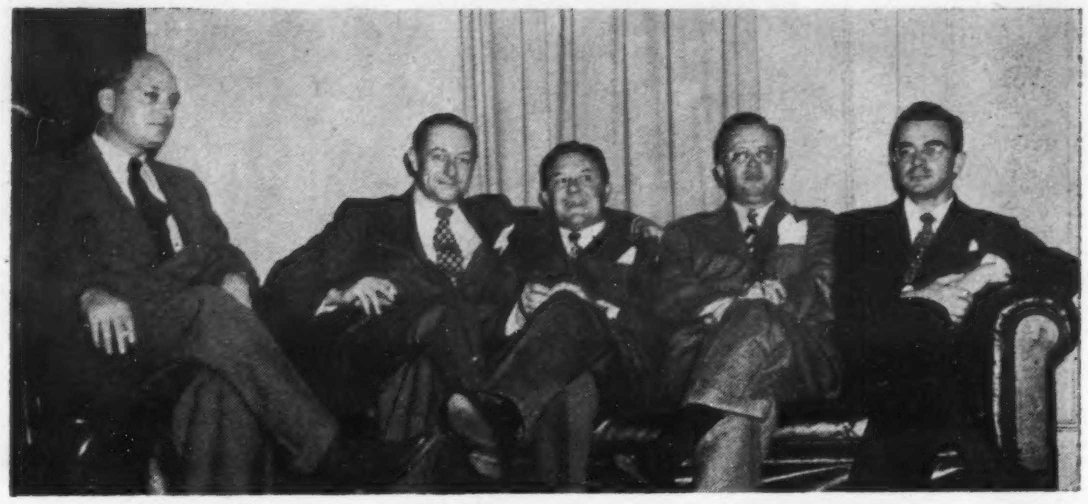
Joseph J. Craig, *Goodbody & Co.;* James P. Cleaver, *Goodbody & Co.;* John J. O'Mara, *Goodbody & Co.*



Alfred L. Powell, *Kenney & Powell;* Ed Gutberlet, *Paine, Webber, Jackson & Curtis;* Ben Van Keegan, *Frank C. Masterson & Co.*

Annual Meeting and Election of Officers

Joe Krasowich, *Bonner & Gregory;* George E. Nelson, *Bonner & Gregory;* Barney Nieman, *Carl Marks & Co.;* J. V. Farrell, *L. H. Rand & Co.; Cy Murphy, Mackubin, Legg & Co.*



George E. Dedrick, *Blair F. Claybaugh & Co.;* George Kranz, *Kaiser & Co.;* George Frings, *Fitzgerald & Co.;* A. L. Hutchinson, *Buckley Brothers;* Charles C. Horton, *Kaiser & Co.*

J. Jay Schwadron, *Burke & Co.;* August G. Fuchs, *George B. Wallace & Co.;* Elmer E. Myers, *Geo. B. Wallace & Co.;* Allan Kadell, *E. H. Rollins & Sons, Inc.*

Albert Tyson, Jr., *Spencer Trask & Co.;* Frank Kane, *Ernst & Co.;* Tom Trager, *Merrill Lynch, Pierce, Fenner & Beane*

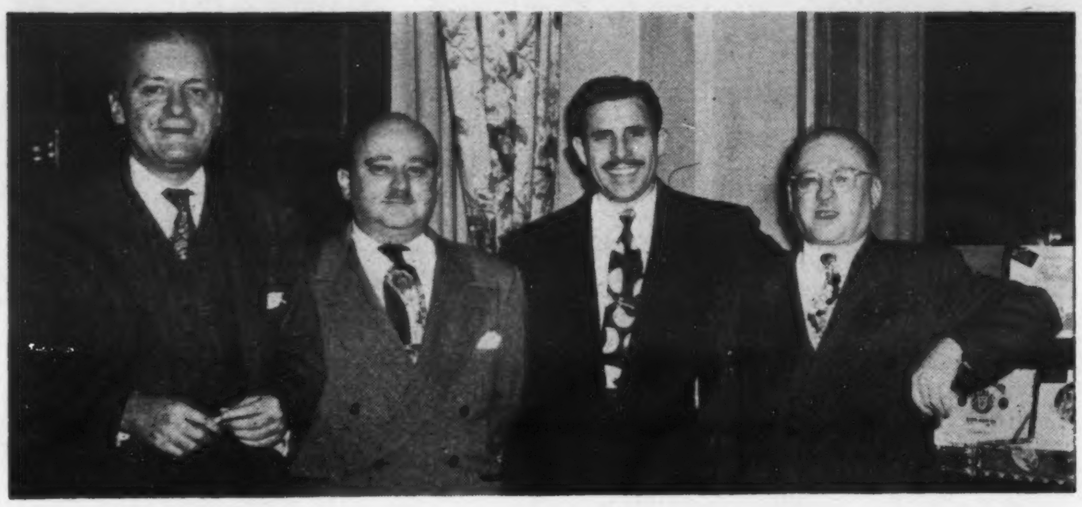
Frank McGivney, *Bendix, Luitweiler & Co.;* Larry Wrenn, *Allen & Co.;* Frank J. Orlando, *Goodbody & Co.*

Ted Plumridge, J. *Arthur Warner & Co.;* Tom F. Worthington, *Winckler, Onderdonk & Co.*

Z. Salkay, *Gearhart & Co., Inc.;* Frank H. Koller, Jr., *Schafer, Miller & Co.;* Herbert Singer, *Luckhurst & Co., Inc.*

Joe Titolo, *Harris, Upham & Co.;* Wilbur Krisam, *Geyer & Co., Inc.;* Gerald F. X. Kane, *Frank Moore & Co.*

Held December 3rd, 1948



George L. Collins, *Geyer & Co., Inc.;* Theodore R. Young, *Young, Aal & Golkin;* Lewis ("Hank") Serlin, *Josephthal & Co.;* Sam Englander, *Marx & Co.*, N. Y. City

Peter Barken; Bill Kumm, *Dunn & Co.;* Chet de Willers, *C. E. de Willers & Co.;* Charles M. Kaiser, *Berwald & Co.*

Edmund A. Whiting, *Kaiser & Co.;* John E. De Maye, *Sutro Bros. & Co.;* E. C. McNulty, *H. D. Knox & Co.*

Jack Farrell, *Farrell Securities Co.;* Herman D. Meyer, *Stern & Co.;* Harold B. Smith, *Pershing & Co.*

Tom Greenberg, *C. E. Unterberg & Co.;* Charles D. Ogden, *Ogden, Wechsler & Co.;* Bert Burbank, *White, Weld & Co.;* Arthur Bertsch, *G. A. Saxton & Co., Inc.*

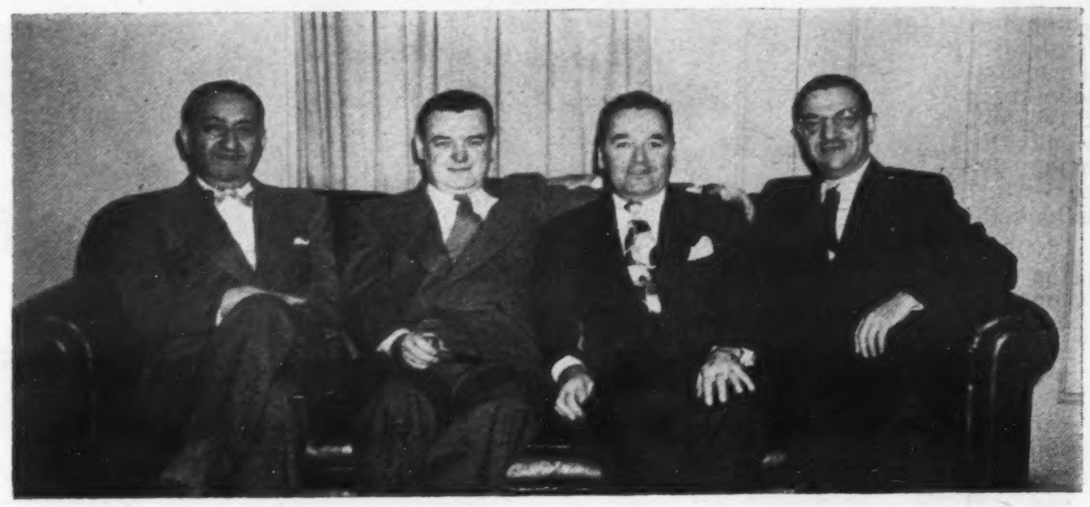
Clifton B. Smith, *Francis I. du Pont & Co.;* Joe Eagan, *Frank C. Masterson & Co.;* Edwin Jacobs, *Blair F. Claybaugh & Co.*

T. G. Horsfield, *Wm. J. Mericka & Co.;* Les Barbier, *G. A. Saxton & Co., Inc.*

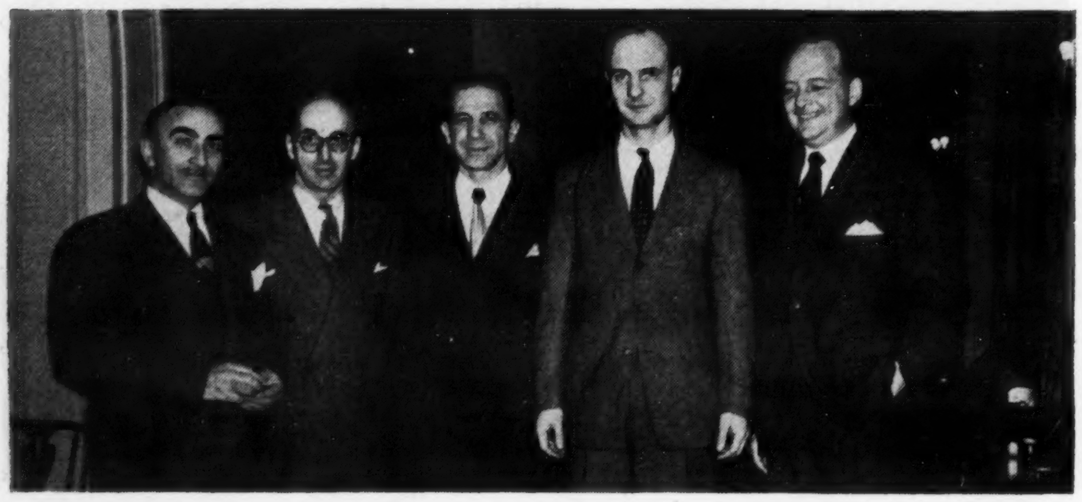
Harold Bentley, *Abbott, Proctor & Paine;* Syd Melven, *S. R. Melven & Co.*

At Produce Exchange Luncheon Club

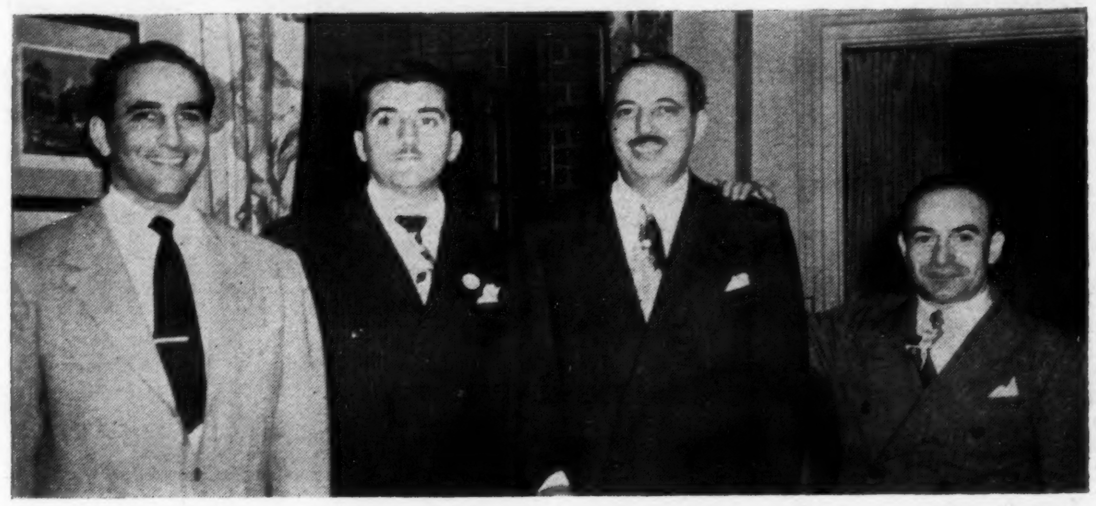
Seated: Irving Stein, *Stein & Co.;* Alfred McGowan, *New York Hanseatic Corp.;* Nat Greene, *First Guardian Securities Corp.* Standing: John Butler, *Geyer & Co., Inc.;* Jim Currie, *Troster, Currie & Summers;* Sidney Holzman, *Marx & Co.;* Arthur Vare, *Hourwich & Co.*



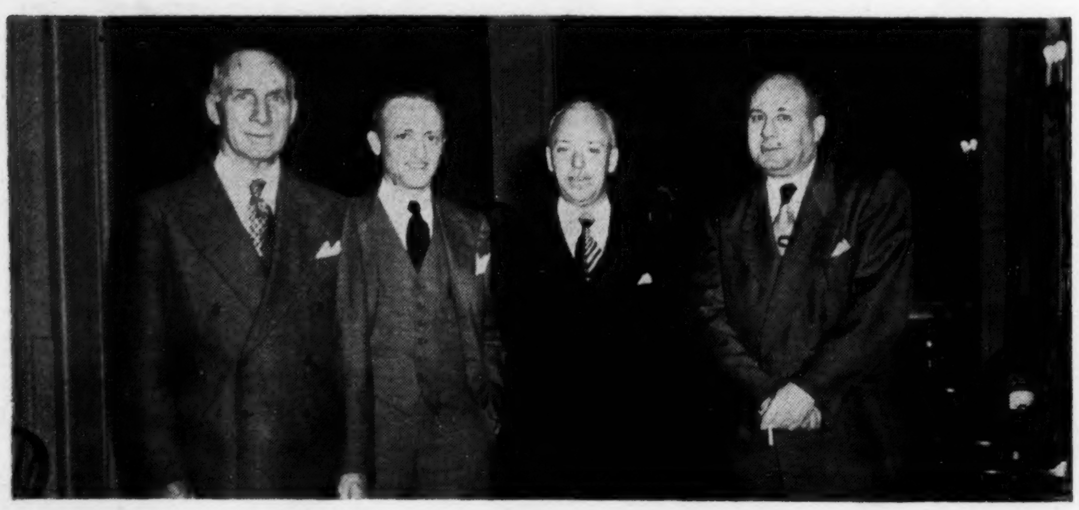
Gene Stark, *Merrill Lynch, Pierce, Fenner & Beane;* Walter Bradley, *B. W. Pizzini & Co.;* Joe Kirk, *Delafield & Delafield;* Harry D. Casper, *John J. O'Kane, Jr. & Co.*



Ben Grody, *Grody & Co.;* Stanley Pelz, *Grody & Co.;* Harry Stillman, *J. Arthur Warner & Co.;* Jim Brewer, *Mackubin, Legg & Co.;* Jack Rose, *Mackubin, Legg & Co.*



Sid Siegel, *Siegel & Co.;* D. Raymond Kenney, *Kenney & Powell;* Nat Krumholz, *Siegel & Co.;* Samuel I. Gold, *Lilley & Co.*, New York City



John H. Valentine, *Grimm & Co.;* Frank J. McCall, *Greene and Company;* Frank Barrett, *H. C. Wainwright & Co.;* David Wittman, *Peter P. McDermott & Co.*

Andrew R. Steven, *Bond & Goodwin, Inc.;* Alfred F. Tisch, *Fitzgerald & Co.*

Charles E. Stoltz, *C. E. Stoltz & Co.;* Edward Russell, *Seligman, Lubetkin & Co.*

Michael Heaney, *Jos. McManus & Co.;* Abe Strauss, *Strauss Bros., Inc.*